**No. 85—February 23, 1998**

# Sports Stadium Madness
## Why It Started ❖ How To Stop It

**By Joseph L. Bast**[1]

Future historians will look back on the 1980s and 1990s with amazement. Communities that were hard-pressed to keep their schools open or police on the beat nevertheless spent billions of dollars on stadiums and arenas for use by professional sports teams. Even mediocre athletes were paid more for a single season than the average hard-working taxpayer would earn in a lifetime. The average taxpayer, who was taxed to build sports facilities and support players' salaries, could not afford to walk through the turnstile and watch a live game.

The U.S. is in the grip of a massive public spending spree on professional sports. How bad is it? Roger G. Noll, professor of economics at Stanford University, and Andrew Zimbalist, professor of economics at Smith College, described the situation in the summer of 1997:

The U.S. is in the grip of a massive public spending spree on professional sports.

> New facilities costing at least $200 million [each] have been completed or are under way in Baltimore, Charlotte, Chicago, Cincinnati, Cleveland, Milwaukee, Nashville, San Francisco, St. Louis, Seattle, Tampa, and Washington, D.C. and are in the planning stages in Boston, Dallas, Minneapolis, New York, and Pittsburgh. Major stadium renovations have been undertaken in Jacksonville and Oakland. Industry experts estimate that more than $7 billion will be spent on new facilities for professional sports teams before 2006. Most of this $7 billion will come from public sources.[2]

---

[1]Joseph L. Bast is president of The Heartland Institute, a nonprofit research and education organization based in Chicago, Illinois. This paper is based on comments he made to the Indianapolis Economic Forum on October 1, 1997. The author wishes to thank Robert Baade, Dean Baim, John Beck, Joe A. Bell, George Clowes, Don Haider, J. David Hoeveler Jr., Nicholas Lash, Adrian Moore, Dave Olson, Bill Raabe, Stephen M. Robinson, Mary Ruwart, Herbert Walberg, Tom Walton, and Phillip Zazove for helpful comments.

[2]Roger G. Noll and Andrew Zimbalist, "Sports, Jobs, and Taxes," *The Brookings Review*, Summer 1997, page 35.

Nationally, subsidies to professional sports facilities are costing taxpayers approximately $500 million a year.[3] That figure understates the true cost, which would take into account the inefficiency, lost employment opportunities, and income redistribution effects caused by sports stadium subsidies.

Nationally, subsidies to professional sports facilities are costing taxpayers approximately $500 million a year.

This sizeable public investment is being made for an industry that is puny compared to almost any other sector of the U.S. economy. For example, annual sales reported by Sears Roebuck & Co. are approximately thirty times the entire revenues of Major League Baseball.[4] Chicago, home of five professional sports franchises, derives less than a tenth of 1 percent of its personal income from professional sports.[5] Indeed, there isn't a single county anywhere in the U.S. where professional sports accounts for more than one-half of 1 percent of that county's private-sector payroll.[6]

All available data suggest that continued public investment in sport stadiums is madness. Sports subsidies don't produce economic benefits sufficient to justify their public subsidies. At best, they are an inefficient and unfair way to attain such "intangible" benefits as civic pride or urban identity. They unfairly burden those who don't follow professional sports or who can't afford to watch live games.

There is some good news, however. *There is a way to stop the madness.* The special-interest groups that back stadium subsidies can be divided by proposing a plan that keeps teams from moving *without* offering millions of dollars in tax subsidies. Allowing fans to own franchises—a model pioneered in 1923 by the Green Bay Packers—would put a stop to the extortionist practice of teams threatening to relocate unless they are subsidized.

Part 1 of this *Heartland Policy Study* summarizes the many ways sports are subsidized in the United States and evaluates the benefits—claimed, real, and intangible—that are said to result from those subsidies. The author concludes that neither economics nor "civic pride" can justify taxpayer subsidies for the construction and maintenance of sports facilities.

---

[3]James Quirk and Rodney D. Fort, *Pay Dirt: The Business of Professional Sports* (Princeton, NJ: Princeton University Press, 1992, 1997 edition), page xxiv.

[4]Robert Baade, "Should Congress Stop the Bidding War for Sports Franchises?" Testimony before the Subcommittee on Antitrust, Business Rights, and Competition of the Senate Committee on the Judiciary, November 29, 1995, *Heartland Policy Study* #77, The Heartland Institute, page 29.

[5]Ibid.

[6]Mark S. Rosentraub, "Are Tax-funded Sports Arenas a Good Investment for America's Cities?" *Insight*, September 22, 1997, page 27.

In Part 2, the author explains why state and municipal governments nevertheless continue to subsidize sports facilities. While sports franchises don't *need* subsidies, and taxpayers don't *want* to subsidize them, the "bidding war" driven by too many cities chasing too few teams makes subsidies nearly inevitable.

Having come to understand what it is about the sports-and-public-policy environment that has given rise to the subsidy madness, the author in Part 3 considers several solutions that have been proposed to address it. Antitrust enforcement and legislation to outlaw the use of subsidies are considered, but found wanting. The best solution to the madness, the author concludes, is *fan ownership* of sports franchises *ala* the NFL's Green Bay Packers.

Part 4 offers a summary and concluding remarks.

## PART 1

# How and Why We Subsidize Sports

Sports stadiums are subsidized in several ways: construction and ownership by a government agency, construction and operating grants paid to private owners or developers, state and local tax abatements, and by the use of federal tax-exempt bonds to finance construction. A typical sports facility costs local taxpayers more than $10 million a year. Oriole Park at Camden Yards, for example, costs Maryland taxpayers about $14 million a year. In 1989, the Louisiana Superdome cost taxpayers over $35 million.[7]

> Competition among cities for professional sport franchises has dramatically lowered rent payments from teams, often to zero. Operating subsidies have become the rule.

A 1990 study of 14 stadiums found "only one—privately built, owned, and operated Dodger Stadium—earned a positive net accumulated value."[8] Back then, most stadium tenants paid enough in rent and shared revenues from parking and concessions to cover operating costs, but not enough to produce a positive rate of return on capital. Since that time, competition among cities for professional sport franchises has dramatically lowered rent payments from teams, often to zero, and teams routinely claim all revenues from parking and concessions. Operating subsidies have become the rule.[9]

The subsidy to professional sports produced by using tax-exempt bonds is often overlooked. Because interest income from state and municipal bonds is exempt from federal income tax, those bonds in 1996 paid between 2.0 and 4.5 percentage points below the interest rates paid by private-purpose bonds and commercial loans. Assuming a $225 million price for a new stadium, Dennis Zimmerman estimates "a lifetime federal tax subsidy as high as $75 million, 34 percent of construction costs."[10]

Using tax-exempt bonds to finance stadium construction imposes costs on taxpayers in three ways. Most cities have a cap or limit on the amount of tax-exempt bonds they can issue for

---

[7]Dennis Zimmerman, "Tax-Exempt Bonds and the Economics of Professional Sports Stadiums," *CRS Report for Congress* (Washington, DC: Congressional Research Service, May 29, 1996), page 7.

[8]Dean V. Baim, "Sports Stadiums as 'Wise Investments': An Evaluation," *Heartland Policy Study* #32, The Heartland Institute, November 26, 1990, page 6.

[9]See Charles C. Euchner, *Playing the Field: Why Sports Teams Move and Cities Fight to Keep Them* (Baltimore, MD: The Johns Hopkins University Press, 1993); Michael N. Danielson, *Home Team: Professional Sports and the American Metropolis* (Princeton, NJ: Princeton University Press, 1997).

[10]Dennis Zimmerman, supra note 7, page 9.

public projects. Using the bonds for sports facilities crowds out more worthy projects such as other public buildings or infrastructure improvements. Second, because government entities carry the debt on their books, their credit ratings could be negatively effected. A lower credit rating means having to pay a higher interest rate on future loans.[11] Third, taxpayers must bear the risk that the deal struck with the private team owners or developer to repay the bonds falls short due to poor attendance, cost overruns, or some other reason. "Stadium construction," in the words of economist Dean Baim, "is not a low-risk investment."[12]

It might reasonably be objected that tax exemptions are not "subsidies," since they only allow taxpayers (in this case, team owners and stadium developers) to keep money that is rightfully theirs. The exemptions in this case, however, are granted to a particular firm or industry and not to others, and without a clear public benefit that might justify such special treatment. Tax-exempt financing has been recognized by other writers as a type of subsidy or "corporate welfare."[13]

> Taxpayers must bear the risk that the deal struck with the private team owners or developer to repay the bonds falls short due to poor attendance, cost overruns, or some other reason.

Congress attempted to restrict tax-exempt financing for sports facilities by adding a provision to the 1986 Tax Reform Act denying the use of tax-exempt bonds for sports facilities if more than 10 percent of debt service was covered by revenues from the facility. Unfortunately, the rule only sweetened the already-sweet deals municipalities were negotiating. Senator Moynihan has twice introduced bills to eliminate tax-exempt financing of stadiums altogether.

## What are the benefits?

We subsidize professional sports, we are frequently told, because they produce more social and economic benefits than a typical private business.[14] Like other "public goods," the argument goes, stadiums would not be produced in sufficient supply if the decision were left solely in the hands of private investors. Tax dollars are needed to correct this "market failure."

---

[11]Illinois issued $150 million in bonds to pay for land acquisition and construction of the new Comiskey Park in Chicago. One year after the park opened, Standard & Poor's lowered its rating on Illinois' general obligation debt from AA to AA-, and Moody's lowered its rating from Aa1 to Aa. See *Illinois State Budget, Fiscal Year 1994*, page Ch.8-4.

[12]Dean V. Baim, supra note 8, page 5.

[13]Stephen Moore and Dean Stansel, "How Corporate Welfare Won," *Policy Analysis* #254, Cato Institute, May 15, 1996, page 4.

[14]See Rick Horrow, "Are Tax-funded Sports Arenas a Good Investment for America's Cities?" *Insight*, September 22, 1997, pages 24, 26.

Among the alleged benefits of a taxpayer-subsidized stadium are new construction jobs; new spending in the community, which creates more jobs; new businesses and tourists attracted by national television coverage; and a "multiplier effect" that occurs when money is spent and then re-spent in the community, resulting in 1.2 to as much as 3.0 times the wealth-producing impact of the original expenditure.

Abe Pollin, owner of the National Basketball Association (NBA) Washington Wizards and Major League Baseball (MLB) Washington Capitals, described the many public benefits he sees flowing from his new, subsidized, MCI Center as follows:

> . . . [T]he area surrounding MCI Center, specifically, and downtown, generally, are already undergoing a renaissance. New shops, hotels, restaurants and office buildings are sprouting up everywhere. Property values are rising correspondingly, which means more real estate taxes for the city. People are coming into the city and staying for the evening. This means more sales taxes. Downtown is coming alive at night in a way that hasn't been seen for a generation.[15]

Many economists and political scientists say the "public goods" label has been applied wrongly to many goods and services that can readily be supplied in sufficient quantity without taxpayer support.

Many economists and political scientists, however, say the "public goods" label has been applied wrongly to many goods and services that can readily be supplied in sufficient quantity without taxpayer support.[16] Nearly all economic activities produce benefits that are not entirely captured by the producer, so the mere fact that an activity produces "positive externalities" does not mean we should subsidize it. The high profile and popularity of professional sports guarantee that its benefits are always on display. But what of the benefits of other public investments, or of the many private investments that don't get made because the money was confiscated to build or operate a stadium?

Whether the benefits of stadium subsidies actually justify their cost is not merely a matter of theory or conjuncture. Independent scholars have studied job creation, business creation, income growth, and other measures of economic performance in cities before and after a new stadium or professional sports franchise arrives. They have also compared the economic records of cities that invest in stadiums and franchises with those that do not, and use statistical methods to control for other changes that might account for differences.

Roger Noll and Andrew Zimbalist recently summarized the findings of many of these

---

[15]Abe Pollin, "MCI Center: Good for the City," *Washington Post* (letter to the editor), January 8, 1997.

[16]Tyler Cowen, editor, *The Theory of Market Failure: A Critical Examination* (Fairfax, VA: George Mason University Press, 1988).

studies:

> In our forthcoming Brookings [Institution] book, *Sports, Jobs, and Taxes,* we and 15 collaborators examine the local economic development argument from all angles . . . in every case, the conclusions are the same. A new sports facility has an extremely small (perhaps even negative) effect on overall economic activity and employment. No recent facility appears to have earned anything approaching a reasonable return on investment. No recent facility has been self-financing in terms of its impact on net tax revenues. . . . [T]he economic benefits of sports facilities are *de minimus*.[17]

The Heartland Institute published several studies that helped bring about this new consensus. The most recent, by economist Robert Baade, studied 48 cities and the metropolitan statistical areas (MSAs) around them over a 30-year period. He concluded:

> Of the 32 MSAs where there was a change in the number of sports teams, 30 MSAs showed no significant relationship between the presence of the teams and real, trend-adjusted, per-capita personal income growth. In the remaining two cases, the presence of sports teams was significantly positive once (in Indianapolis) and significantly negative once (in Baltimore).
>
> Of the 30 MSAs where there was a change in the number of stadiums or arenas ten years old or less, 27 MSAs showed no significant relationship between the presence of a stadium and real, trend-adjusted, per-capita personal income growth. In all three of the remaining cases (St. Louis, San Francisco/Oakland, and Washington D.C.) the presence of a sports stadium was significantly *negative*. [emphasis in original][18]

Indianapolis has done more than any other city to make sports its economic catalyst. The city made amateur and professional sports an important part of its downtown redevelopment plan, pouring public funds into partnerships to keep the National Football League (NFL) Colts, NBA Pacers, headquarters of the National College Athletics Association (NCAA), Pan American Games, men's college basketball championships, and more. Indianapolis' plan was the model for similar efforts in Cleveland, Baltimore, Jacksonville, and other cities. Surely if professional sports contributed to job creation and prosperity, the results would be visible in Indianapolis.

---

[17] Noll and Zimbalist, supra note 2, page 36.

[18] Robert A. Baade, "Stadiums, Professional Sports, and Economic Development: Assessing the Reality," *Policy Study* #62, The Heartland Institute, April 4, 1994.

The definitive study of sports' contribution to the Indianapolis economy has been written by Mark Rosentraub, Associate Dean of the School of Public and Environmental Affairs at Indiana University in Indianapolis.[19] Rosentraub finds "no significant or substantial shifts in economic development. Simply put, the sports strategy did not achieve its objectives." Rosentraub says the strategy "was marginally successful in creating a small number of jobs," but that "overall, average salaries in Indianapolis declined in comparison to salaries with many of those cities with which Indianapolis' leadership believes it competes." And finally, "If success is measured by growth in jobs and payrolls, then Indianapolis was not as successful as other cities with which it competes for economic development."

> Investing in a stadium has a beneficial *net* effect only if the stadium produces more value than the forgone opportunity.

Indianapolis represents the limits to which a city can go to derive benefits from the presence of professional sports teams. The fact that few or no benefits were to be found reaffirms the findings of national studies by Robert Baade and the other experts cited earlier.

## Why are there no benefits?

Econometric analysis finds no evidence of greater job creation or income creation in communities that invest in sports stadiums versus those that do not. Why not? It is less a mystery than a puzzle with several parts.

### ***Opportunity costs are often overlooked.***

The true cost of using a resource is "the value of the next-highest-valued alternative use of that resource."[20] Economists refer to this amount as the "opportunity cost" of an investment or purchase. To measure the true social benefits produced by a sports stadium, the apparent or visible economic benefits must be reduced by the benefits that *would have been produced* by alternative uses of the same capital and land.

Investing in a stadium has a beneficial *net* effect only if the stadium produces more value than the forgone opportunity. For example, the same money used to finance a stadium might otherwise have gone to finance a new park, renovate an historic building or business district, or build a new civic center or library. The land might have been used for an industrial park, a

---

[19]Mark S. Rosentraub, *Major League Losers: The Real Cost of Sports and Who's Paying For It* (New York, NY: Harper Collins Publishers, Inc., 1997). The quotes that follow are from a summary of the book written by Rosentraub titled "Indianapolis: A Major League Loser?" *Indiana Policy Review*, Winter 1998, pages 14-17.

[20]David R. Henderson, "Opportunity Cost," in David R. Henderson, editor, *The Fortune Encyclopedia of Economics* (New York, NY: Warner Books, 1993), page 44.

community college, or affordable housing. The money used to subsidize the operation of a stadium might instead have gone to hire more police, firefighters, or teachers. How much benefit would have come from those alternative uses? Whatever that amount is, it must be subtracted from the visible benefits produced by the stadium investment in order for the *net* benefits to be revealed.

When an econometric study finds no significant positive effects, and occasionally a significant negative effect, of a new stadium or sports franchise on a metropolitan area, it is telling us the opportunity cost of that investment was as great or greater than the value it produced. It was, in other words, a poor investment. Economically, the community would have been no worse off, and may have been better off, had the subsidy not been given.

***Most stadiums do not attract "new money" to a metropolitan area.***

Most people have an "entertainment budget" of time and money they are willing to devote to entertainment of any kind. The act of subsidizing a sports stadium does not increase the size of that budget: We are not somehow given more time to devote to recreation, and the price of tickets to see a live game does not go down (for reasons explained below). Consequently, most of the money spent at a sports stadium or arena *would have been spent anyway* at some other entertainment venue, such as a local theater, bowling alley, night club, or health club.[21]

> The large majority of fans at most professional sporting events resides inside the boundaries of the metropolitan region.

A stadium would indeed generate "new money" for a metropolitan area if it attracted a significant percent of its fans from outside the immediate area. This is generally not the case for baseball and basketball, where "the number and frequency of games means that most of the market for ticket sales is metropolitan."[22] Football games, because there are fewer of them and they are scheduled on weekends, draw fans from greater distances. However, the small number of football games—just eight regular season home games—means the total number of fans attending football games is much smaller than the number attending baseball or basketball games.

The few sports teams that do attract fans from outside their immediate areas typically play in facilities (such as Oriole Park in Camden Yards, Maryland) strategically located on the outskirts of major metropolitan areas, in which case the host jurisdiction's employment and tax revenue gains come largely at the expense of the neighboring jurisdiction. Finally, a few long-established baseball franchises located near the central business districts of major metropolitan areas also draw fans from outside the immediate area. "Polls have shown that more than half the visitors to

[21]"Rather than spurring industries that will develop strong export potential, recreational service industries tend to rearrange what has already been produced." Charles C. Euchner, supra note 9, page 68.

[22]Michael N. Danielson, supra note 9, page 48.

Wrigley Field [home of the MLB Chicago Cubs] come from more than 100 miles outside Chicago's city limits."[23] Because the popularity of these teams is so strongly connected to their locations, they are least likely to threaten to relocate.

***Few businesses are attracted by the presence of a sports facility.***

New sports facilities, especially football stadiums, are designed and built in a way that is unlikely to prompt local economic development.[24] The transportation and parking needs of a modern facility require acres of unattractive parking lots and close proximity to a four- or six-lane expressway. In order to capture as much revenue from visiting fans as possible, these stadiums are built like self-contained fortresses, with restaurants, gift shops, hotel rooms, and even night clubs all within their walls. As a result, few fans venture far from the stadiums after a game before heading home.

In order to capture as much revenue from visiting fans as possible, new stadiums are built like self-contained fortresses, with restaurants, gift shops, hotel rooms, and even night clubs all within their walls.

Some sports facilities, particularly older baseball-only stadiums such as Fenway Park in Boston and Wrigley Field in Chicago, are physically embedded in well-established business districts and residential neighborhoods. It is plausible, in these cases, that a complementary relationship exists between the stadium and nearby bars and restaurants. Much less plausible, however, is the claim that this relationship is characteristic of newer and larger facilities, or that it extends much more than a few blocks from even an old and beloved stadium's front door.

Do professional sports teams attract new businesses to a city by subtly shaping the city's image in the minds of chief executive officers of the Fortune 500? This claim assumes that some CEOs choose new locations for their businesses after having seen a city's skyline during coverage of a football or baseball game. Just how implausible this is can be demonstrated by asking the following question: Would you buy stock in a company whose CEO decided where to locate the headquarters or a new factory based on where his favorite professional sports teams are based?

There are better ways to capture the attention of site-hunting CEOs. The cover of the September 29, 1997 issue of *U.S. News & World Report* featured New York Mayor Rudolph Giuliani and was titled "Comeback City." The subtitle on the front cover read "How much credit does Mayor Giuliani deserve for New York's amazing turnaround?" Inside, the eight-page feature article attributed the city's economic recovery to reducing its crime rate "to its lowest level in 30

---

[23] Dave Van Dyck, "'Buffy' Slays Cubs on WGN," *Chicago Sun-Times*, January 29, 1998, page 100.

[24] Michael N. Danielson, supra note 9, pages 109ff.

years," eliminating graffiti from the subways, cleaner streets, welfare reform, and a $1.2 billion municipal budget surplus.[25] *Business Week* started the favorable reviews in business publications with a December 1995 article titled "A Safer New York City."[26] Since then, *Fortune* has named New York "North America's most improved city"[27] and *Plants Sites and Parks* named it one of the top ten "hot spots" for business expansion.[28]

One reason New York can afford to put more police on the street, keep its subways and streets cleaner, and still have a budget surplus is because it hasn't given in to extortion demands from its two Major League Baseball teams. John Dyson, New York's deputy mayor for finance and economic development, said in 1996, "The typical funding structure lately has been to get 80 percent from the public and 20 percent from the teams. We think those numbers should be reversed."[29]

New York City shows how a city can boost its image and gain positive national attention by choosing to sit out the professional sports bidding war.

New York City shows how a city can boost its image and gain positive national attention by choosing to sit out the professional sports bidding war.

***Sport stadium revenues are not spent locally.***

The big money in professional sports goes to the team owners and players, who may or may not invest or spend the money in the host community. Much of the subsidy to a stadium goes directly into the pockets of the team owners by raising the re-sale value of their teams. For example, investor Eli Jacobs bought the Baltimore Orioles for $70 million in 1989 and was able to sell it less than four years later for $173 million, a 150 percent appreciation, thanks to the decision by Maryland policy-makers to build a $200 million stadium at taxpayer expense.[30]

---

[25]John Marks, "New York, New York," *U.S. News & World Report*, September 29, 1997, pages 45-54.

[26]Elizabeth Lesly, "A Safer New York City," *Business Week*, December 11, 1995, pages 81-84.

[27]Anne Faircloth, "North America's Most Improved Cities," *Fortune*, November 24, 1997, pages 170-191.

[28]Tracy Bertman, "Hot Spots Set Stage for Business Expansion," *Plants Sites & Parks*, November/ December 1997, pages 67-89.

[29]Quoted in Dan McGraw, "Playing the Stadium Game," *U.S. News & World Report*, June 3, 1996, page 48.

[30]Randall Lane, "Bread and Circuses," *Forbes*, June 6, 1994, page 62.

Maryland's subsidy package included free use of a $200 million made-to-order stadium; the right to raise $80 million from seat licenses; all profits from concessions, parking, and advertising; and payment by the state of any relocation fee charged by the league.[31]

As a result of such favorable deals, the value of professional sports franchises has risen dramatically since the early 1980s.[32] A typical NFL franchise in 1997 was worth over $200 million. Following negotiations for a new television contract in early 1998, one sports columnist quoted an executive for the Dallas Cowboys speaking off the record: "I would bet each NFL franchise is now worth at least $100 million more than it was yesterday."[33] That same source put the value of the NFL Dallas Cowboys at $600 million.

Team owners such as Eli Jacobs are not likely to spend more than a small fraction of their windfalls in the city or state whose taxpayers financed the subsidy. Skilled investors put their money wherever they can get the highest return. In today's investment world, that could easily be outside of the U.S. Many wealthy people who are not skilled investors pay to have their funds managed by national investment companies, which once again are unlikely to return a substantial portion of the dollars to their state of origin.

The big money in professional sports goes to the team owners and players, who may or may not invest or spend the money in the host community.

Players also get a piece of the action. The enormous salaries paid to athletes in recent years have made headlines around the world. The athletes, their managers, and their unions are simply taking advantage of the "surplus" or excess profits that stadium subsidies help make possible. Professional athletes often do not live for extended periods of time in the communities in which they work.[34] When they leave, their savings and spending go with them. Since professional careers tend to be short and the pay extremely high, professional athletes (and increasingly coaches) place most of their incomes in investment accounts managed, once again, by national firms.

Even part of the money that fans voluntarily give to their favorite teams when they purchase tickets ends up leaving the city. League rules typically require that ticket revenues be shared with franchise owners in other cities, a way to subsidize teams in smaller markets. In the case of the NFL, 40 percent of gate receipts is exported from the community under this rule.

Do stadium subsidies nevertheless benefit fans by reducing the price of tickets? The answer, perhaps surprisingly, is no. Capital subsidies—that is, construction subsidies—may

---

[31]Marc Levinson, "Fields of Schemes," *Newsweek*, December 11, 1995, page 60.

[32]James Quirk and Rodney D. Fort, supra note 3, chapter 2.

[33]Rick Telander, "NFL Owners Run to Paydirt," *Chicago Sun-Times*, January 23, 1998, page 138.

[34]Charles C. Euchner, supra note 9, page 72.

reduce a team's overall costs, but the marginal cost to admit one more fan to a game is unlikely to change. Consequently, capital subsidies are not likely to have any effect on ticket prices.[35] The lowly fan receives no benefit, and may even face *higher* ticket prices due to the waste and "gold plating" that the subsidy causes.

The lowly fan receives no benefit, and may even face *higher* ticket prices due to the waste and "gold plating" that the subsidy causes.

Operating subsidies may reduce a team's marginal costs, but whether that savings gets passed along to fans in the form of lower ticket prices depends on the strength of competing forms of entertainment and the price sensitivity of fans. In markets where competition is strong and demand is "elastic" (that is, where consumers respond to changes in price), a team already has a financial incentive to lower prices to sell more tickets, since the increase in ticket sales will more than make up for the lower ticket price. Ironically, it is only in markets where demand is "inelastic"—where price matters less to fans—that an operating subsidy can create an environment in which lower ticket prices may result.[36]

***Sports generate low-paying, seasonal jobs.***

While professional athletes are well paid, the great majority of jobs created by stadium development are low-paying, seasonal, and part-time, such as parking cars and selling refreshments during games.[37] These are not the kinds of jobs that lead to greater economic growth for a region, or position a community to take advantage of national and international trends toward workforces with higher skills and familiarity with advanced technology.

Many economists would agree that low-paying jobs often serve as valuable first rungs on the employment ladder. Young people and people with few skills can use these jobs to learn how to increase their productivity, thereby positioning themselves for better-paying jobs in the future. But research by Robert Baade suggests that growth in the number of low-skilled jobs tends to follow the creation of higher paying jobs,[38] not the other way around. So the optimal economic development strategy, according to Baade, may be to foster the latter, not the former.

---

[35] Dean Baim, supra note 8, page 12 and endnotes 10 and 11.

[36] Ibid.

[37] Robert Baade, "Is There an Economic Rationale for Subsidizing Sports Stadiums?" *Heartland Policy Study* #13, The Heartland Institute, February 23, 1987; Michael N. Danielson, supra note 9, page 106.

[38] Robert Baade, supra note 4, page 29.

***Advocates often make unrealistic assumptions about economic impacts.***

Common to all sports stadium debates is the "economic impact study."[39] Such studies, typically commissioned by franchise owners and performed by an accounting firm, estimate the number of people employed by the team and facility owner and their combined salaries. Some percent of these salaries is then assumed to be spent in the community, resulting in greater demand for goods and services, and consequently a second round of new employment and new spending. The total impact of this "recycling" of new money in the community is estimated by multiplying the original salary figures by a "multiplier effect" that typically ranges from 1.2 to 3.

Multiplier analysis, according to Hunter, can be used to justify *any* public works project, no matter how unnecessary or wasteful it may be.

According to Marquette University professor of economics William Hunter, the multipliers used in economic impact studies routinely make unrealistic assumptions about how much money stays in the community, how much represents new economic activity, and how often the money cycles through the economy.[40] The choice of a multiplier is often arbitrary or made with an eye toward the client's wishes. Multiplier analysis, according to Hunter, can be used to justify *any* public works project, no matter how unnecessary or wasteful it may be, because "the expenditure is itself considered community income, so the application of even the smallest multiplier will guarantee community income growth in excess of public expenditure."[41] Hunter calls this the "Taj Mahal syndrome."

***The convention industry can't save sports stadiums.***

Linking stadiums to convention centers was often said during the early 1990s to be the way to solve the "empty stadium" problem. Groups requiring extremely large meeting facilities—the Boy Scouts of America and Promise Keepers are two groups invariably mentioned in this context—have been said to be sources of income that can make sports stadium financing work. They haven't.

Publicly subsidized convention centers, like stadiums and arenas, are plagued by operating deficits and minimal economic impacts.[42] A 1987 survey of 25 government convention centers

---

[39] Typical of the reports claiming a significant positive economic impact from stadium construction is KPMG Peat Marwick LLP, "Economic and Fiscal Benefits Analysis Related to the Potential Relocation of a Professional Football Franchise to Nashville," Final Report, October 1995.

[40] William J. Hunter, "Economic Impact Studies: Inaccurate, Misleading, and Unnecessary," *Heartland Policy Study* #21, The Heartland Institute, July 22, 1988.

[41] Ibid., page 6.

[42] Edwin S. Mills, "Should Governments Own Convention Centers?" *Heartland Policy Study* #33, The Heartland Institute, January 21, 1991.

with more than 300,000 square feet of meeting and exhibit space found annual operating losses averaged 42 percent of revenue.[43] Convention centers are no more likely than stadiums to produce benefits greater than alternative investments of capital and land, for many of the same reasons: There are too many convention centers chasing too few events; construction and operating costs are inflated by sweetheart deals and public-sector incompetence; and tourists are often discouraged from visiting neighboring businesses by the self-contained nature of the facilities.

> Publicly subsidized convention centers, like stadiums and arenas, are plagued with operating deficits and minimal economic impacts.

Combining stadiums with convention centers usually increases a project's cost dramatically, making it a bigger sacrifice and risk for local taxpayers. While team owners can be reasonably expected to hire competent facility managers when they own their stadium or lease a public stadium, a convention center typically lacks the equivalent of a major tenant. Convention centers are therefore more complex and difficult to manage than stadiums, increasing the likelihood of poor management and wasted tax dollars.

The convention picture is likely to get worse instead of better. A recent editorial in *Crain's Chicago Business* pointed out the reasons:

> [T]he universe of new big trade shows is shrinking. . . [T]here simply aren't enough events large enough to justify construction of a domed assembly hall. . . . Chicago already is struggling to fill the convention facilities it has . . . .[44]

A recent study of a proposed convention center in Boston reached many of the same conclusions.[45]

## Are there "intangible" benefits?

Okay, so stadium subsidies don't generate any more economic benefits than would have been generated had the money been spent on something else. Still, aren't there indirect or "intangible" benefits? Sports, after all, are fun! Having a professional sports franchise in town gives fans something to talk about at work and home, a place to go for wholesome family entertainment, and a certain amount of pride in one's hometown.

---

[43]Ibid., page 3.

[44]"Say 'No' to McDome, Say 'No' to the Bears," *Crain's Chicago Business* (editorial), March 24, 1997, page 10.

[45]Heywood T. Sanders, "Challenging Convention(al) Wisdom: Hard Facts about the Proposed Boston Convention Center," *White Paper*, Pioneer Institute for Public Policy Research, May 1997.

There is, in fact, a literature describing how sports create a sense of "contrived community" and even advance racial harmony in some cities.[46] Robert Milbourne, executive director of the Greater Milwaukee Committee, was quoted a few years ago as saying "without major league sports, Milwaukee would be like Des Moines,"[47] presumably meaning that Milwaukee would be a less interesting place to visit. While pitching a $540 million subsidy package in 1996 for the Cincinnati Bengals and Cincinnati Reds, Hamilton County, Ohio, Commissioner Bob Bedinghaus would say "the issue is about staking out a vision for what we want this community to look like 25 years from now."[48]

> If spent by the public sector, the same investment might have boosted a city's image or its residents' self-esteem even more.

When Cleveland's Gateway project recently came under criticism for producing only 2,000 permanent jobs, rather than the 16,800 its proponents had predicted, Thomas Chema, the former spokesperson for the Gateway project, first denied ever making the prediction and then complained that such criticism overlooks the "intangible" benefits of Gateway. The real benefit, he explained, was "image enhancement."[49]

It is probably impossible to measure the contribution that professional sports make to a community's image or self-esteem. Whatever it is, though, we know it must be weighed against the value that *would have been created* if the money were spent on something else. This is simply the opportunity cost issue in a different guise. If spent by the public sector, the same investment might have meant new schools, better police protection, roads, parks, or other public facilities. Surely these things would have a positive effect on the community's image and its residents' self-esteem.

If the money spent on sports stadiums were left instead in the hands of the public, it might have meant better restaurants, a rejuvenated downtown business district, a new theme park, more amateur sports, and more of the countless other things produced by for-profit and non-profit businesses in the community. Wouldn't those goods and services have a positive impact on a community's image? And if more people participated in the kinds of entertainment described here than attend the ten or eleven games typically played at home by an NFL franchise team, would we say the money was truly better spent?

---

[46] Michael N. Danielson, supra note 9, chapter 1.

[47] Marcia Berss, "Big League Blackmail," *Forbes*, May 11, 1992, page 45.

[48] Quoted in John Helyar, "A City's Self-Image Confronts Tax Revolt in Battle on Stadiums," *The Wall Street Journal*, March 19, 1996, page 1.

[49] Bob Cook, "Author Says Gateway an Economic Air Ball," *Crain's Cleveland Business*, February 24, 1997, page 33.

It often goes unremarked that the sense of pride and identity that may come from hosting a professional sports franchise is only a temporary and delicate thing in light of the many relocations and threats to relocate that now characterize the national leagues. Today's proud community may experience a deep sense of failure and abandonment when its team repeatedly loses or threatens to move.[50] Football fans in Cleveland experienced this first-hand when the NFL Browns moved to Baltimore. Fan reactions included bomb threats against the owner and angry taunting of players during their final games in Cleveland.[51] Did this grim episode benefit Cleveland's national image or the self-esteem of the city's residents?

> The sense of pride and identity that may come from hosting a professional sports franchise is only a temporary and delicate thing.

Another possible indirect benefit of having a professional sports team is that it sells newspapers, which helps to explain why daily newspapers are invariably big boosters of sports stadium subsidies. It is possible, for example, that without Michael Jordan and the Chicago Bulls, Chicago would have only one rather than two daily newspapers. It may even have happened in some city, somewhere, that the presence of a professional sports team kept alive a newspaper that otherwise would have gone under, and that newspaper then uncovered government corruption or a hidden public health risk, benefitting thousands or millions of people. Given the popularity of the sports sections of many newspapers, this is not an entirely implausible scenario.

One supposes that there must be less expensive ways than building sports stadiums to finance investigative journalism and reporting on public health hazards. Be that as it may, the better response is to point out that it may have happened in some city, somewhere, that the decision to finance a new hospital rather than a stadium resulted in the discovery of a new drug or vaccine that reduced suffering for millions of people. Or the renovation of a city's historic business district led to the return of major employers and residential developers who, had a stadium been built instead, would have decided to locate elsewhere.

These counter-examples demonstrate the overly hypothetical nature of the "newspaper argument." Such claims about what may or might happen cannot be proved or disproved. They do not contribute to an informed debate.

[50]"We have found evidence that people's optimism and moods are elevated after a victory. But a loss seems to affect them to even greater proportions in a negative form." Ed Hirt, professor of psychology, Indiana University in Bloomington, quoted in Bob Condor, "It's Only a Game!" *Chicago Tribune,* November 27, 1997, Section 5, page 3.

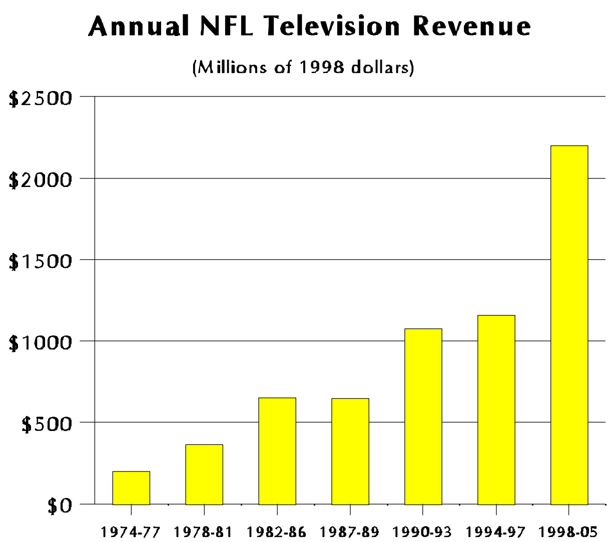
[51]Steve Wulf, "Bad Bounces for the NFL," *Time*, December 11, 1995, page 65.

## PART 2

# Why Do We Subsidize Stadiums?

If there are no net economic benefits from hosting a professional sports franchise, and if the "intangible" benefits of having a team could easily be less than the intangible benefits of other investments, why do so many cities continue to subsidize professional sports? As a columnist for the Cleveland *Plain Dealer* eloquently put it, "Are we crazy, or what?"[52]

***Professional sports franchises don't need government subsidies***.




Source: *Newsweek*, January 26, 1998.

We don't subsidize professional sports because they need the money. In the absence of government subsidies, private parties could still compete for franchises and new stadiums and arenas would still be built, albeit probably not as elaborate as the new generation of subsidized facilities.

Sales of luxury suites, club boxes, and personal seat licenses are already a major part of most new stadium financing and have the commendable effect of making fans rather than taxpayers pay for new or improved facilities. Charging major corporations fees to have their name placed on the facility or to advertise inside and outside the building is a major and growing source of revenue.[53]

Revenue from television broadcasting is a large and growing share of total income for franchise owners. In January 1998, the four major networks agreed to pay the NFL a total of $18 billion over eight years for the right to broadcast games.[54] The deal was nearly twice the annual revenue (in inflation-adjusted dollars) of the prior four-year agreement (see chart on this page)

[52]Joe Dirck, "The High Cost of Playing Host," *The Plain Dealer*, February 23, 1997.

[53]Pacific Bell, for example, will pay $50 million for the right to have its name on the new privately financed ballpark for the San Francisco Giants. 3Com Corp., a computer company, is paying $1 million a year to put its name on Candlestick Park. Edward Robinson, "It's Where You Play That Counts," *Fortune*, July 21, 1997, page 55.

[54]Richard Turner, "NBC: The Road to 'Tap City,'" *Newsweek*, January 26, 1998, pages 42-44.

and guarantees every franchise owner in the NFL an average payment of about $73 million per year, or about $4.5 million to each team for every game it plays.[55] The NBA recently signed a four-year $2.6 billion television contract.[56]

Broadcasters, who make millions of dollars on professional sports, are logical candidates to be equity partners, and in fact are playing a growing role in the corporate ownership of many franchises.[57] Integrating sports facilities into mixed-use projects is another way to attract capital. The Pro Player Stadium (previously named Joe Robbie Stadium), located in Florida, was largely self-financing because it was imbedded in a larger mixed-used development plan that attracted other investors and produced additional potential revenue streams.

How do team owners justify their pleas for taxpayer support when such ample funding is available from other sources? The MLB Marlins play in the Pro Player Stadium, which was widely hailed as being state-of-the-art when it opened in 1987. Yet billionaire Wayne Huizenga, owner of the Marlins, campaigned successfully for a new tax-subsidized arena. He justified his call for taxpayer support as follows:

The owners of a professional team in one city say they must be given open-ended access to the public treasury in order to compete with other teams, *because the other teams have been given open-ended access to their city's or state's treasury*.

> If we build the stadium with a mortgage, and all the other successful teams have been given their stadiums, then we are at a disadvantage. How can we have a $60 million payroll like Atlanta? We need what other teams get. We need all the revenue streams.[58]

This claim implies that the owners of a professional team in one city must be given open-ended access to the public treasury in order to compete with other teams, *because the other teams have been given open-ended access to their city's or state's treasury.* There is no limit to the amount of money that can be demanded using this logic, with each team owner ratcheting up his or her demands in round-robin fashion without end. Are taxpayers really willing to play the game by these rules?

---

[55]Sports columnist Rick Telander did the math, supra note 33.

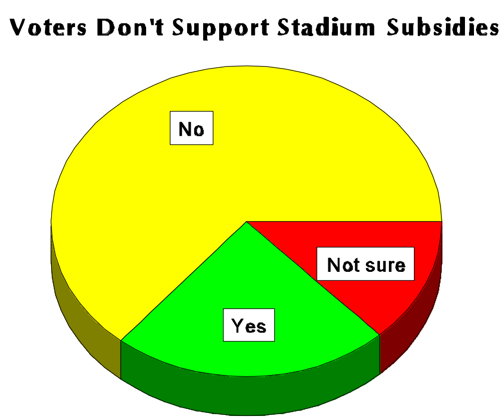
[56]Stefan Fatsis, "For Pro Football, Giant TV Pacts May Carry a Price," *The Wall Street Journal*, January 15, 1998, page B10.

[57]The Tribune Co. purchased the Cubs in 1981, and since then Time Warner, Comcast, Cablevision, and News Corp. have all become sole or part owners of sports franchises.

[58]Edward Robinson, supra note 53.

***Taxpayers don't want to subsidize stadiums.***

According to many sports fans, team owners, facility developers, and elected officials, the reason we subsidize stadiums is because taxpayers want such subsidies. Sports are popular, the argument goes, and the general public believes the entertainment value of a professional sports franchise is worth the small increase in their taxes.




"Should tax dollars ever be used to build a professional sports facility?"

Source: Rasmussen Research, 1997.

Opinion polls, however, tell a different story. "Don't question where most Americans stand on this," wrote syndicated columnist Neal R. Peirce in a January 17, 1997 column. "Polls show that by over-whelming margins—up to 80 percent—[Americans] want sports subsidies stopped, right now."[59]

Responding to a national survey of one thousand adults conducted on November 11, 1997, by Rasmussen Research[60] 64 percent said tax dollars should never be used to build a professional sports facility, while 13 percent were not sure. Some 56 percent said government agencies should sell their existing arenas to the highest bidder. Even 39 percent of respondents who said they attend professional sports events regularly said the arenas should be sold .

Newspapers seldom publish such survey results during stadium debates, and when they do, they may hide the results under misleading headlines. For example, an August 27, 1996 news article in the *Chicago Tribune* was titled "Fans Back Dome, Boo McCaskey," a title that implies public support for a proposed publicly financed domed stadium even though the owner of the NFL Chicago Bears is unpopular.[61] But the poll that is the basis of the article, conducted by Market Shares Corp., found 62 percent of those asked were opposed to "the use of public funds to build a stadium to keep the Bears from moving out of state," while only 26 percent were in favor, and 13 percent had no opinion.

---

[59]Neal R. Peirce, "Sports Blackmail: Just Say No?" *The Plain Dealer*, January 26, 1997. Such a poll is reported in "Survey: Massachusetts Residents Support Tax Cuts, Tax Credits," *NewsLink*, The Beacon Hill Institute, Fall 1997. The survey found 63 percent of respondents opposed using state-backed bonds to improve Foxboro Stadium to keep the NFL Patriots from moving. Thirty percent favored the subsidy and 7 percent didn't know.

[60]Scott W. Rasmussen, "Americans Want State and Local Governments to Sell Sports Stadiums, Not Buy Them," News Release, Rasmussen Research (Waxhaw, North Carolina), November 11, 1997.

[61]Stevenson Swanson and Flynn McRoberts, "Fans Back Dome, Boo McCaskey," *Chicago Tribune*, August 27, 1996.

***Real reason #1: Cities bid against one another for sports franchises*.**

We arrive, finally, at the first of three real reasons why we subsidize sports stadiums. The number of professional sports franchises is kept below the number of cities that could support a team, thereby forcing cities to bid against one another for the privilege of hosting a team. So long as even one city with a suitable (empty) stadium is seeking a team, every other city is subject to threats by their teams to relocate unless more subsidies are delivered. In plain language, there are too many stadiums chasing too few teams.

James Quirk and Rodney D. Fort described the roots of the present situation in the 1997 update to their important 1992 book, *Pay Dirt: The Business of Professional Team Sports*:

> The ability of teams to extract large subsidies from local governments stems entirely from the monopoly power wielded by sports leagues. If there were several competing leagues in a sport, simple profit incentives would lead toward expansion of leagues into any city that could profitably support a team, and blackmailing threats would be a thing of the past. There would be no incentives, such as those that exist at present, to leave a few potentially profitable locations without teams, as threats to the local government.[62]

According to one estimate, as many as 35 metropolitan areas could support a MLB franchise, but the league has authorized only 30 teams.[63] When a MLB or NFL team relocates, the other franchise holders receive "relocation fees" worth millions of dollars. New franchises are doled out slowly and only to communities that are unlikely to reduce the gate receipts of an existing franchise.

> The number of professional sports franchises is kept below the number of cities that could support a team, thereby forcing cities to bid against one another for the privilege of hosting a team.

Not every city is as vulnerable as the next to stadium extortion. Cities in large media markets, or that host other franchises competing for fans, have some leverage against a team threatening to leave.[64] Similarly, differences in ownership structure mean not every team is as capable of carrying out the threat to relocate, a point that will be explored in greater depth below.

---

[62]James Quirk and Rodney D. Fort, supra note 3, page xxiv.

[63]Mark S. Rosentraub, supra note 19. The number of current franchises includes two new franchises (Arizona and Tampa Bay) scheduled to begin playing in 1998.

[64]"Smaller metropolitan areas are more vulnerable to relocation threats than larger markets . . . ." Michael N. Danielson, supra note 9, page 301.

***Real reason #2: League revenue-sharing rules encourage relocation.***

The second real reason for sports stadium subsidies is the rules governing how franchises share the revenue generated by merchandising, broadcasting, ticket sales, and other activities. The NFL's rules, for example, give each team an equal share of total receipts from broadcasting and the sale of merchandise, and requires that gate receipts be split 60/40 with the league, with the home team keeping the larger share. This arrangement means each team has relatively little incentive to maximize attendance at its games, but it produces a substantial amount of revenue-sharing with teams in smaller media markets, such as the Green Bay Packers, making it possible for the latter to field competitive teams. Other leagues have similar, though less generous, revenue-sharing arrangements.

> A team with a facility that generates considerable non-ticket revenue will have a financial advantage over its opponents, and presumably will be able to field a better team.

While most leagues require that most revenue sources be shared, to some degree, with the other franchises, *every league allows its teams to keep all the non-ticket revenue generated by their stadium or arena.* A team with a facility that generates considerable non-ticket revenue will have a financial advantage over its opponents, and presumably will be able to field a better team. Noll and Zimbalist list "luxury suites, club boxes, elaborate concessions, catering, signage, advertising, theme activities, and even bars, restaurants and apartments with a view of the field" as among the latest profit-maximizing strategies.[65]

The luxury suites and other enhancements typically found in a new stadium in 1997 enabled a team to increase its annual revenue by $30 million or more, at least for a few years after the stadium opens.[66] Older stadiums—even those less than a decade old—frequently fail to have all the latest features that increase the potential revenue stream for owners. With the rewards from moving to a new stadium so great, teams seek new homes more frequently than in the past.

Innovations in stadium design make it possible for smaller cities to support franchises, enabling more cities to bid for the limited number of franchises. The result is even more intense bidding, more innovations in stadium design to maximize the franchises' revenue, and so on in an endless spiral of rising tax subsidies and profits for team owners.

[65]Roger G. Noll and Andrew Zimbalist, supra note 2, page 39.

[66]Edward Robinson, supra note 53, page 55.

***Real reason #3: Subsidy backers win because they have more at stake than taxpayers.***

The third real reason we subsidize stadiums is due to the efforts of self-interested parties that economists call "rent seekers." Rent seekers profit by using their position in the political system to derive unearned income from the general public. Rent seeking produces no goods or services, or anything else of value to society. Yet economists believe such conduct redistributes billions of dollars from the general public to the coffers of special-interest groups every year.[67]

> Rent seeking produces no goods or services, or anything else of value to society.

Besides the team owners and players, rent seekers in the stadium subsidy game include bond houses that make millions of dollars by arranging financing; politically connected construction contractors who build or renovate facilities; labor unions that represent construction workers; newspaper reporters, editors, and publishers whose jobs and profits depend on the presence of a professional team; and politicians who see being identified with popular athletes as a way to improve their chances for re-election.

The pro-subsidy coalition that secured $240 million for the MLB Seattle Mariners is typical. It consisted of the mayor, "most key politicians, labor unions, many civic leaders and important business executives."[68] They planned to raise $700,000 to push the plan, while investors in the stadium pledged $825,000 more. Opponents of the subsidy "include mostly businesses that would have to be relocated to make room for the park, and they have raised about $50,000."[69]

Another typical pro-subsidy coalition was the one that successfully lobbied for Cleveland's $462 million Gateway stadium and arena project in 1990. It included the mayor, the city's daily newspaper, its weekly business paper, the city chamber of commerce, and the AFL-CIO. *Crain's Cleveland Business*, by its own count, published six pro-Gateway editorials and opinion essays in four consecutive issues leading up to the vote.[70]

Opposing the pro-subsidy coalition is usually a motley assortment of taxpayer groups, fans of the existing "obsolete" facility, NIMBY ("not in my backyard") protesters, and

---

[67]See Gordon Tullock, "Government Spending," in David R. Henderson, editor, *The Fortune Encyclopedia of Economics* (New York, NY: Warner Books, Inc., 1993), pages 262-264.

[68]Tom Brune, "Seattle Swims Against the Tide with Costly Tax Request," *Chicago Tribune*, September 19, 1995.

[69]Ibid.

[70]Bob Cook, supra note 49.

sometimes the advocates of higher spending on welfare and other competing public services.[71] The contest usually follows a path familiar to students of public choice theory:[72]

- The pro-stadium rent seekers, being relatively few in number and each standing to reap substantial financial benefits from a stadium deal, effectively organize a political movement and raise money for a pro-stadium public relations campaign. "Economic impact studies" are commissioned, civic leaders are recruited to the cause, and campaign contributions are made to politicians.

- Anti-stadium activists have greater difficulty getting organized because each potential member of their coalition faces only a minor financial cost if the effort loses and little net gain over the current situation if it wins. Consequently, subsidy opponents typically raise very little money for public relations. Their coalitions are often little more than "a ragtag band of libertarians and anti-tax activists."[73]

- Politicians are likely to endorse stadium subsidies because the benefits of doing so—favorable press attention, campaign contributions from builders and team owners, and a hand in determining how millions of dollars in subsidies are spent—all come immediately, in time to boost a re-election effort. The costs of the subsidy—higher taxes, lost economic growth, unfulfilled promises of economic impact, and threats to relocate unless further subsidies are provided—all become apparent later, after the politician is safely reelected or no longer in office.

- Most local media outlets weigh in strongly on the side of the stadium subsidies, since their circulation or ratings will be improved by the presence of a professional sports team. Misinformation regarding job creation and economic development is usually reported uncritically, persuading people who would otherwise be skeptical or indifferent to the plan to become passive supporters.

- When opponents of stadium subsidies are able to place the question on a public ballot, they sometimes win despite being outspent by subsidy proponents. However, even here the playing

---

[71]The groups advocating higher spending on other social services are usually bought off later in the negotiating process with promises of jobs, grants, and higher spending on their programs. For detailed accounts of two recent successful campaigns for stadium subsidies, see Noah Wepman, "Political Football: The Inside Story on How the San Francisco 49ers Scored at the Ballot Box—Winning a New Stadium and Shopping Mall," *Campaigns & Elections*, October/November 1997, pages 19-22; and Mark A. Hart, "Tampa Sales Tax Touchdown: How a Sales Tax Package Was Passed—Despite Organized Opposition to Inclusion of Funds for a New Stadium," *Campaigns & Elections*, October/November 1997, pages 23-25.

[72]See Mancur Olson Jr., *Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge, MA: Harvard University Press, 1971); and James Buchanan and Gordon Tullock, *The Calculus of Consent: Logical Foundations of Constitutional Democracy* (Ann Arbor, MI: The University of Michigan Press, 1965 (fifth printing, 1974)). For detailed case studies involving stadium subsidies, see Charles C. Euchner, supra note 9.

[73]Peter Navarro, "San Diego Latest Pawn in Stadium Blackmail," *USA Today*, February 20, 1997.

field is tilted toward the supporters of subsidies. A high percentage of government workers, union members, and others with direct financial stakes in the subsidy turn out to vote. A much smaller percentage of taxpayers and others with less at stake in the debate take the time to vote on election day. They are "rationally ignorant": that is, they choose not to invest the time required to be an informed voter because they know their vote is unlikely to change the election outcome.

If opponents of stadium subsidies are lucky enough to win despite their organizational disadvantages, their victories are usually short-lived. Without the pressure of an upcoming referendum or pending legislation in the state legislature, the anti-stadium alliance quickly dissolves as its members return to their higher-priority concerns.

The pro-stadium forces remain funded, organized, and focused on their goals, working behind the scenes to secure a deal outside the referenda or legislative process or preparing for the next vote. With millions of dollars in contracts and control over thousands of jobs at stake, the pro-stadium forces can justify the time and money required to stay organized year after year, long after their grassroots opponents have worn themselves out or been divided by some other public policy initiative. Not surprisingly, the record shows that the pro-stadium groups eventually win nearly every contest.

If opponents of stadium subsidies are lucky enough to win despite their organizational disadvantages, their victories are usually short-lived.

## Why we *shouldn't* subsidize stadiums

If there isn't a positive case for subsidizing sports stadiums, is there nevertheless little harm in doing so? Is this merely a small investment in a national pastime? Aren't such subsidies smaller and less harmful than many other public expenditures that go unchallenged? There are at least five reasons, apart from their lack of public benefit, why subsidies to professional sports should be discouraged.

### *Subsidies divert public funds from more important services.*

Stadium subsidies divert funding from more important public services, such as crime prevention, road building, and schools. The cost of a proposed stadium/convention facility for the NFL Chicago Bears, for example, is nearly half the entire annual budget of the Chicago Public Schools. A plan to place the MLB New York Yankees on the West Side of Manhattan carries a price tag of between $1.4 and $1.6 billion.[74] A fraction of these amounts would be enough to build a dozen new schools from the ground up and renovate scores of other facilities.

The risk of diverting funds from real needs is worse when smaller cities try to compete in the bidding wars. Sacramento, which had a municipal debt of $14 million in 1997, nevertheless gave the NBA Kings a low-interest loan of $70 million in return for a promise not to leave the city in under ten years.[75] Just a few miles away, Oakland can't afford to heat its schools and is contemplating cutting back the number of police and firefighters due to a deal its city council made to bring back the NFL Raiders. That deal could cost the community hundreds of millions of dollars.[76]

> In Milton Friedman's famous formulation, "There ain't no such thing as a free lunch."

It is sometimes claimed that the money in question could not have been raised if not for the stadium plan. But this claim only muddies the issue since it is impossible to prove or disprove. We know that the funds don't mysteriously appear out of thin air: They must first be earned or acquired by force (taxed) and diverted from some other use. The financial resources available to a unit of government are limited by law and by taxpayers' willingness to pay higher taxes or be responsible for greater amounts of debt. A subsidy given to a professional sports team, therefore, *necessarily* reduces the funds available to be applied to other uses or to reduce current taxes. In Milton Friedman's famous formulation, "There ain't no such thing as a free lunch."

***Subsidies are unfair to taxpayers.***

As former Houston Mayor Bob Lanier puts it, "the average working person is asked to put a tax on their home, or pay sales or some other consumer tax, to build luxury boxes in which they cannot afford to sit."[77] It is patently unfair to use the taxing power of government to force average citizens to subsidize the entertainment of a privileged elite. This is playing Robin Hood in reverse: Using government's taxing authority to take from the poor and give to the rich.

If governments can tax for this purpose, then there can be no objection to subsidizing other kinds of entertainment, such as opera, art galleries, race tracks, and casinos. Indeed, these

---

[74]Murray Chass, "New Jersey Readies Plan for Stadium for Yankees," *The New York Times*, September 15, 1995.

[75]Jason Vest, "Uproot for the Home Team," *U.S. News & World Report*, March 10, 1997, page 53.

[76]Gayle M.B. Hanson, "Oakland's Mayor Moonbeam?" *Insight*, February 2, 1998, page 16.

[77]Mayor Bob Lanier, "Should Congress Stop the Bidding War for Sports Franchises?" Testimony before the Subcommittee on Antitrust, Business Rights, and Competition of the Senate Committee on the Judiciary, November 25, 1995, *Heartland Policy Study* #76, page 2.

enterprises are frequently subsidized by cities and states. How can we justify saying “no” to still other special-interest groups—shoe sellers, say, or the makers of outdoor patio furniture—when they decide to come before the legislature to ask for subsidies?[78]

Opinion polls mentioned earlier make it clear that the general public understands the injustice of such schemes, but are too poorly organized to successfully oppose them.

***Subsidies are unfair to other businesses.***

No other industry is given access to public funds as readily as professional sports teams, yet other businesses must compete with professional sports for labor, materials, and customers. The result is higher prices for needed inputs, and the need to spend more on advertising to attract the attention of customers. This is probably most intuitive in the case of movie theaters, bowling alleys, and other businesses that compete directly with a new stadium or arena for customers, but it is also true for *any* employer who draws from the same labor market and material suppliers as are tapped by the subsidized sports team.

By fueling a bidding war among team owners for the elite athletes, taxpayer subsidies to sports have made the salaries of professional athletes much higher than they would be in a competitive and unsubsidized environment.

The unequal treatment of different classes of businesses represented by sports subsidies leads to the diversion of labor and other inputs away from those who would put them to their highest and best use and into the hands of a politically favored but relatively low-productivity industry (professional sports). Ultimately this means less wealth is created as efficiency and other productivity-enhancing behavior go unrewarded.

***Subsidies accentuate income inequalities.***

By fueling a bidding war among team owners for the elite athletes, taxpayer subsidies to professional sports have made the salaries of professional athletes much higher than they would be in a competitive and unsubsidized environment. As James Quirk and Rodney D. Fort write:

> . . . [T]he present day level of player salaries reflects the ability of players to generate revenue for an owner, in a monopolized setting. In a competitive pro sports environment, teams and leagues would be competing with one another for TV coverage, franchise sites, and fans. Inevitably, competition, as compared to a

---

[78]The argument that there is a “slippery slide” toward expanding government intervention probably received its finest presentation in the 1944 international best seller, *The Road to Serfdom,* by Friedrich Hayek.

monopoly setting, would reduce the revenues that teams earn, just as inevitably, this would be reflected in lower, not higher, player salaries.[79]

When people see extraordinarily high salaries going to professional athletes—such as Michael Jordan's $35 million a year contract, and even mediocre players getting $1 million a year—the stage is set for all sorts of unhealthy reactions.

> Nearly every boy in America between the ages of 10 and 15 expects to grow up to become a professional athlete and earn millions of dollars.

Adults grow to envy the lifestyles of athletes and disparage the more modest but still comfortable lifestyles that can be attained through hard work. A young man or woman entering the workforce in 1998, perhaps with college loans to pay off, faces forty years of hard work and discipline to climb a career ladder, the top of which may provide an annual salary of perhaps only $40,000 in 1998 dollars. How disheartening is it to watch 19-year-old athletes being paid millions of dollars a year to play basketball? The distorted economics of professional sports creates such enormous and undeserved income differentials as to fuel envy and hopelessness even among adults who would otherwise celebrate the financial success of others.

The effect on younger people is worse still. Nearly every boy in American between the ages of 10 and 15 expects to grow up to become a professional athlete and earn millions of dollars. Finding the self-discipline needed to study reading and arithmetic is difficult enough at that age; how much more difficult must it be when the youngster believes in his heart that school work is completely unrelated to his future career in sports? How many members of the so-called "Generation X" graduated high school without employment skills because of the false allure of professional sports during their teen years?

***Subsidies cause a deadweight loss to society.***

Some stadium development projects are, or could be in the absence of subsidized competition from other facilities, economically sound investments. They would be built by private developers in the absence of subsidies, though as mentioned earlier they almost certainly would not be as elaborate as those built with taxpayer assistance. The critical difference between these facilities and those currently being proposed and built is that meticulous care would be exercised in the planning, construction, and operating phases of such projects in order to achieve the economic returns necessary to attract and maintain the capital investment.

Private owners whose own capital is invested in a facility have the necessary incentives to control costs and maximize a facility's utilization, while most government owners or private

[79]James Quirk and Rodney D. Fort, supra note 3, page xxv.

owners who are not also investors do not. The result is a transfer of wealth from taxpayers to team owners and athletes, and a deadweight loss to society.

No social value is produced when facilities that are still functional are torn down on the grounds that they are "economically obsolete." Expensive investments in infrastructure are similarly being abandoned, only to be built anew across town or in some other city. This is not "economic development." It is make-work: no different in principle from digging and re-filling ditches.

> Private owners whose own capital is invested in a facility have the necessary incentives to control costs and maximize a facility's utilization, while most government owners or private owners who are not also investors do not.

The economic effects are different, but no more positive, when an existing stadium is left standing and a new facility is built next door or down the road. In the Miami area, for example, there are three operating arenas along a 30-mile stretch of Interstate 95.[80]

[80]Robert Baade, comments to the author, December 1997.

PART 3

# Can Government Stop the Madness?

What can be done to stop the madness of subsidizing billionaires, uprooting long-established teams, and leaving major media markets without teams? In the arena of public policy, three proposals get the most attention. They are (1) using antitrust law to break up the leagues, (2) banning the use of tax subsidies for stadiums, and (3) ending the use of tax-exempt bonds for stadium construction. Although the author is sympathetic to the goals of those advocating the first two courses of action, he cannot endorse them. The third proposal is valuable, but would not do enough. The real solution, presented in the section following this one, does not require government intervention at all.

***(1) Should we use antitrust laws to break up the leagues?***

Subjecting the leagues to antitrust enforcement is often suggested as the way to introduce competition and decentralized control into professional sports.[81] All professional sports leagues enjoy a *de facto* exemption from antitrust litigation thanks to the Sports Broadcasting Act. Baseball's exemption is the broadest because it is based on a 1922 U.S. Supreme Court decision that baseball, as the nation's pastime, is not "commerce," and therefore cannot be regulated by the federal government under its interstate commerce powers.

> "The foxes are guarding the chickens. And while they keep saying, 'We're nice foxes,' I wonder what those feathers are, coming out of their mouths."

Major League Baseball, to its credit, has used its broad antitrust exemption to prevent franchise owners from relocating: Only one MLB team, the Senators, has relocated since 1972. The NFL and National Hockey League argue that they, too, would more actively work to limit team relocations if a broader antitrust exemption protected them from lawsuits filed by their franchise owners.[82] But one doubts whether the leagues, once they are given this authority, would be any more aggressive in expanding the number of franchises than in the recent past. As former Houston

[81]Stephen F. Ross, "Should Congress Stop the Bidding War for Sports Franchises?" Testimony before the Subcommittee on Antitrust, Business Rights, and Competition of the Senate Committee on the Judiciary, November 29, 1995, *Heartland Policy Study* #77, The Heartland Institute, pages 11-21; Michael N. Danielson, supra note 9; and Charles C. Euchner, supra note 9.

[82]Paul Tagliabue (Commissioner of the NFL) and Gary Bettman (Commissioner of the NHL), "Should Congress Stop the Bidding War for Sports Franchises?" Testimony before the Subcommittee on Antitrust, Business Rights, and Competition of the Senate Committee on the Judiciary, November 29, 1995, *Heartland Policy Study* #75.

Mayor Bob Lanier has said, "The foxes are guarding the chickens. And while they keep saying, 'We're nice foxes,' I wonder what those feathers are, coming out of their mouths."[83]

There is growing consensus among economists that past attempts aimed at "trust busting" did not advance and may have harmed consumer interests.

Perhaps, as Stephen Ross suggests, antitrust laws can be used selectively to change policies that play the biggest role in causing municipalities to bid against each other.[84] Requiring that luxury suite and club box revenues be shared as gate receipts are, for example, would "take away a significant incentive for owners to relocate." Or, as Robert Baade suggests, cities that lose a franchise could be entitled to receive an expansion franchise without paying the usual fee, so long as they could meet some minimum capitalization requirements.[85] This would force the leagues to lose some of their market power every time one of their members accepts a subsidy to relocate, a trade-off that would require the team owners themselves to decide what their current cartels are worth.

Subjecting the leagues to antitrust laws would presumably force them to allow more franchises to be formed or to end practices that encourage teams to lobby for new tax-subsidized stadiums. The Sherman Antitrust Act gives Congress the authority to do this. But there are reasons to believe that antitrust enforcement is not the best approach to take to this problem.

### *Antitrust laws: A world-wide failure*

There is growing consensus among economists that past attempts aimed at "trust busting" did not advance and may have harmed consumer interests. The notion that government can prevent firms from colluding, and in doing so benefit consumers, is no longer embraced uncritically by most economists and students of the issue.[86]

Dominick Armentano, a professor of economics at the University of Hartford, contends that antitrust has *never* performed as well as its defenders have claimed. He has documented in great detail how "the business organizations under indictment in the classic antitrust cases were expanding outputs, reducing prices, improving technology, and engaging generally in an

[83]Quoted in Steve Wulf, supra note 51, page 65.

[84]Stephen F. Ross, supra note 81, pages 11-21.

[85]Robert Baade, supra note 4.

[86]See Clyde Wayne Crews Jr., "Antitrust Policy as Corporate Welfare," Competitive Enterprise Institute, July 1997; and essays by Carl Shapiro, J. Gregory Sidak, and George Bittlingmayer in *Jobs & Capital*, Milken Institute for Job & Capital Formation, Winter 1997.

intensely competitive process."[87] In other words, the firms were not acting as monopolists. Why, then, were they targeted?

According to Armentano, Yale Brozen,[88] Richard Posner,[89] and many other leading scholars in the field, regulators and the firms they are supposed to be regulating use antitrust law to advance their own private interests. This generally entails preventing rather than encouraging competitive behavior and protecting existing market structures.[90] These interest groups are able to use antitrust laws in ways other than those intended by Congress because there is little or no empirical basis for determining which markets are "competitive enough," or what effects monopolistic conduct has on consumers, or what effects government interventions aimed at preventing that conduct would have on consumers. In the absence of an objective set of rules with which to apply or assess the effects of antitrust laws, rent-seeking conduct flourishes.

> For every 1 percent increase in Justice Department antitrust cases during the period 1947-1981, the unemployment rate increased 0.17 percent.

If the past is a reliable guide to the future, government cannot be expected to enforce antitrust laws in a way that will actually benefit consumers. Two economists in 1984 calculated that for every 1 percent increase in Justice Department antitrust cases during the period 1947-1981, the nation's unemployment rate increased 0.17 percent,[91] the predictable result, they say, of the use of antitrust laws to benefit firms that could not otherwise win in a competitive marketplace.

According to some writers in the antitrust field, government should stay out of the antitrust business for a different reason. Fred L. Smith Jr. expressed it well in 1983:

> Liberty is a neglected aspect of antitrust discussion. Why should a businessman not be free to restrain his own trade if he wishes, alone or in combination with others? The activities prohibited under antitrust laws are invariably peaceable

---

[87]Dominick T. Armentano, *Antitrust and Monopoly: Anatomy of a Policy Failure* (New York, NY: Holmes & Meier Inc., 1982, second edition, 1990), page 3.

[88]Yale Brozen, *Is Government the Source of Monopoly? And Other Essays* (Washington, DC: Cato Institute, 1980).

[89]Richard Posner, "A Statistical Study of Antitrust Law Enforcement," *Journal of Law and Economics*, Vol. 13 (October 1970), pages 365-419.

[90]Fred Smith points out that from July 1976 to July 1977, private parties filed 1,600 antitrust suits in federal courts, while government agencies filed only 78. Fred L. Smith Jr., "Why Not Abolish Antitrust?" *Regulation: The AEI Journal on Government and Society*, Vol. 7, No. 1 (January/February 1983), page 28.

[91]W.F. Shughart II and R.D. Tollison, "The Employment Consequences of Antitrust," 1984 manuscript summarized in R.D. Tollison, "Public Choice and Antitrust," *Cato Journal*, Winter 1985, pages 905-916.

activities—whatever their merit under an efficiency standard—and thus should be allowed in a free society.[92]

> An attempt to "break up the leagues" by using antitrust laws would result in less, not more, competition, and fewer rather than greater benefits to consumers.

The broad consensus against antitrust laws was demonstrated dramatically in 1997 by the publication of a two-volume report on regulatory reform by the Organization for Economic Cooperation and Development (OECD), a highly respected international organization. The authors of the report observe that many sectors of the economies of developed countries were once viewed as "either natural monopolies or as being of vital social or strategic interest, or both, requiring at a minimum heavy regulation, if not direct public ownership. *These rationales are in many cases no longer considered valid.*" (Emphasis added.) They go on to write:

> Changes in technology and experience have called into doubt the pervasiveness of natural monopolies, or narrowed their existence to network components. Increasing complexity of economies and increasing globalisation have also resulted in greater scope for actual or potential competition. . . . In addition, government failure may be as capable of creating inefficiency as market failure.[93]

In light of its disappointing past and the skepticism of scholars around the world, antitrust law enforcement aimed at "breaking up the leagues" would likely result in less, not more, competition, and fewer rather than greater benefits to consumers. It is difficult to imagine that antitrust laws would work in this case when they have performed so poorly everywhere else they have been tried.

### *Is the professional sports cartel already breaking up?*

Monopolies, oligopolies, and cartels, in the absence of government-erected barriers to competition or consumer choice, are invariably short-lived.[94] High prices and profits in one sector of the economy act as signals for firms and investors to enter that market, thereby increasing supply and driving down profits. Attempts to restrict competition through collusion and price

---

[92]Fred L. Smith Jr., supra note 90, page 25.

[93]*The OECD Report on Regulatory Reform, Vol. I: Sectoral Studies; Vol. 2: Thematic Studies.* (Paris: Organization for Economic Cooperation and Development, 1997). The quotations are from Vol. 2, page 9.

[94]See Yale Brozen, supra note 88.

fixing either end in cheating by members of the cartel or have little apparent effect on prices.[95] This competitive process has worked well to keep other industries from being dominated by one or a small number of big corporations immune from market forces.[96] Will it eventually break up the professional sports cartel?

Evidence that the leagues' grip is already slipping includes the slow growth in attendance at baseball games and the growing popularity of amateur sports and those sports, such as soccer, that are not controlled by the leagues. With the proliferation of television channels and growing popularity of other forms of entertainment, professional sports is claiming a diminishing share of America's leisure-time "budget."[97]

> This competition *among* sports leagues, even if competition is limited *within* a particular league, is enough to impose market discipline on franchise owners.

Although the major leagues are expanding very slowly, the combined effect has been a growing number of cities that now host major league baseball, football, basketball, and hockey franchises, making competition for fans intense. This competition *among* sports leagues is enough to impose market discipline on franchise owners, even if competition is limited *within* a particular league. For example, the owner of the extremely popular NBA Chicago Bulls probably settled for a privately financed arena because he knew that in the team's absence, fans would switch their attention to the NFL Bears or MLB Cubs and White Sox. Fans and taxpayers were also still dissatisfied with the decision several years earlier to use public funds to build a new park for the White Sox.

Recognizing that it risked losing long-time football fans in a major media market to other sports, the NFL guaranteed Cleveland a relocated or expansion franchise by 1999 and assistance with financing a new stadium following the decision of the Browns to move to Baltimore.[98] In Denver, the recent addition of baseball and hockey franchises makes it less likely the Broncos will

---

[95]Dominick T. Armentano, supra note 87; and Fred L. Smith Jr., supra note 90.

[96]Despite many predictions to the contrary, "the average size of firms has shrunk and competition has increased since the 1960s." Pam Woodall, "A Game of Monopoly?" *The Economist*, September 28, 1996.

[97]Charles C. Euchner, supra note 9. Ratings for the 1998 Super Bowl rebounded, but continued to fall for regular season games for all sports. Illustrative of this trend is the decision, announced in January 1998, by "superstation" WGN televison to reduce the number of MLB Chicago Cubs games broadcast each season from 144 to 92, an all-time low. Tribune Company, which owns WGN and the Cubs, also owns 22.7 percent of Warner Brothers, which is attempting to become a major television network. "In essence, [Tribune Company] is competing against itself." Dave Van Dyck, supra note 23.

[98]The agreement also reportedly requires that any team relocating to Cleveland must not be in breach of its present lease. Richard Sandomir, "Compromise Got Cleveland a Stadium," *The New York Times*, February 12, 1996.

be successful in their campaign, ongoing as this is written, for a new, tax-funded stadium.[99]

The high salaries paid to some professional athletes have fueled the growth of high school, college, and semi-professional athletic programs catering to young people (including women) who want to become professional athletes. Cable television and other new forms of broadcasting are allowing these athletes to reach a growing audience without being part of the established leagues. The demise of the draft system, which once kept players' salaries in check, is likely to exacerbate the income gap between the tiny elite able to play for the major leagues and the huge and growing tier of amateur stars eager to play but kept out by the leagues' monopsonistic practices.[100]

Finally, the threat that new leagues could be launched also weakens the hold of the current major leagues. Unlike virtually all other markets where competition is limited and "market power" appears to be a problem, there are no *legal* barriers to new competitors in the professional sports industry. In the past, new leagues have served to push major leagues into offering new expansion franchises and have prevented them from abandoning major media markets.[101]

Unlike virtually all other markets where competition is limited and "market power" appears to be a problem, there are no *legal* barriers to new competitors in the professional sports industry.

As the number of television networks grows, it becomes inevitable that one or more networks that lose the bidding competition to broadcast games will be tempted to finance the start-up of a competing league. As this is written, there is speculation that NBC and Turner Broadcasting are considering creating a new football league.[102] In the memorable words of sports writer Rick Telander, "as long as there are rich, bored, greedy men with testosterone coursing through their hardening arteries, there will be new football leagues a-forming."[103]

These new developments in inter-league competition for fans, technology, entertainment, and the next generation of professional athletes weaken the leagues' grip on professional sports in the U.S. and reduce the leagues' ability to shake down taxpayers for subsidies and new stadiums and arenas. Based on the what we know of the dismal record of antitrust enforcement, fans and taxpayers would be better served by allowing market forces, rather than government regulators,

---

[99]See Kevin Simpson, "Expectations Tightly Reined," *U.S. News & World Report*, January 26, 1998, page 14.

[100]See John J. Siegfried, "Sports Player Drafts and Reserve Systems," *Cato Journal*, Vol. 14, No. 3 (Winter 1995), pages 443-452.

[101]For a detailed and well-told history of upstart leagues, see James Quirk and Rodney D. Fort, supra note 3, Chapters 8 and 9.

[102]Rick Telander, "A League of Their Own," *Chicago Sun-Times*, February 2, 1998, page 98.

[103]Ibid.

to restructure the sports industry.

***(2) Should we outlaw the use of subsidies*?**

Rather than use antitrust laws to change the structure of professional sports to reduce its market power, perhaps it would be easier to change the laws concerning how and when government entities are able to give subsidies to private interests. Stephen Ross, Mark Rosentraub, and others suggest that states and municipalities should declare a "cease fire" in the bidding war and refuse to submit to extortion demands. Neal Peirce described the strategy in a column in January 1998:

> If prospective towns start saying no to sports moguls in search of public subsidies for their luxury-suited stadia and sky-high player salaries, then the whole extortion bubble will bust and pro sports will descend to more reasonable, free market-set prices.[104]

> States and municipalities could declare a "cease fire" in the bidding war and refuse to submit to extortion demands.

There is some evidence that this "just say no" strategy is making progress. Voters in Minneapolis recently adopted a requirement that any stadium plan be approved by public referendum, and the Minnesota legislature recently refused to guarantee $356 million in subsidies to the MLB Twins. But for every Minneapolis there seems to be a Washington (which approved $300 million in bonds for the NFL Seattle Seahawks in 1997) and a San Francisco ($525 million for the NFL 49ers, also in 1997).[105] Given the strength of the pro-subsidy coalitions, how likely is it that other cities, or even Minneapolis, will be able to refuse future demands for subsidies?

Congress, which is somewhat more insulated from fans and the influence of local and state pro-subsidy coalitions, could prohibit outright the use of tax subsidies to lure or retain franchises, an act Stephen Ross says would be justified given that it was Congress' act of granting a special antitrust exemption that allowed the creation of a monopoly football league in the first place.

Declaring a ban on all subsidies would be more complex and difficult to enforce than might be thought. Cities and states have many ways of enticing franchises, and other potential employers, to locate in their jurisdictions. For example:

- *Selective tax abatement* is now commonplace, and is often justified by pointing to the low quality of public services provided in an economically depressed area, or the low probability that alternative development would generate more tax revenues.

---

[104]Neal Peirce, "Worm Turns on Stadium Ripoffs," *Washington Post,* January 11, 1998.

[105]Ibid.

- *Infrastructure improvements*—ranging from assembling property and demolishing existing structures to building new freeway ramps—are part of the standard sports stadium subsidy package, but proponents argue that making such improvements is a common and proper role for government.

- *Tax Increment Financing (TIF) districts*, once restricted to "blighted" urban areas, are now commonly used to raise funds for infrastructure and improvements demanded by developers even in prosperous communities and thriving downtown districts. In a TIF district, tax-exempt bonds are issued for infrastructure improvements and then repaid from the increase in property tax revenues generated by the new development.

> A ban on sports stadium subsidies could easily be evaded if avenues for indirect subsidy were not also closed.

A ban on sports stadium subsidies could easily be evaded if avenues for indirect subsidy were not also closed. Closing them would be a complex task undertaken against claims by local officials that such development "tools" do not constitute subsidies at all, but rather are legitimate attempts by cities and states to tailor tax burdens and infrastructures to their local needs and opportunities.

Senator Daniel Patrick Moynihan's very modest proposal to restrict the use of tax-exempt bonds, for example, drew a letter signed by six organizations representing mayors and other state and municipal officials protesting that it would "constrain local flexibility in deciding what projects to undertake on a tax-exempt basis."[106] Similar objections and difficulties have arisen in response to past and pending proposals to limit the use of business subsidies generally.[107]

There is also the not insignificant matter of the U.S. Constitution to consider. The Tenth Amendment restricts the powers of the federal government to those enumerated in the document, reserving the rest "to the states, respectively, or to the people." Telling state governments how to tailor their tax systems is not among the enumerated powers, and therefore Ross' rationalization is unlikely to stand up to a legal challenge. Given widespread support for returning to the federal system of decentralized authority,[108] this is probably for the best.

---

[106]Leslie Wayne, "Picking Up the Tab for Field of Dreams," *The New York Times*, July 27, 1996.

[107]James Johnston, "Competition Helps States," *USA Today*, October 25, 1995; Neil Peirce, "Let Feds End State vs. State Jobs Battle," *Arizona Republic*, November 5, 1995; Federal Reserve Bank of Minneapolis, "The Economic War Among the States," *The Region*, June 1996; and Federal Reserve Bank of Boston, "The Effects of State and Local Public Policies on Economic Development," *New England Economic Review,* March/April 1997.

[108]See William D. Eggers and John O'Leary, *Revolution at the Roots* (New York, NY: The Free Press, 1995); and David Osborne and Ted Gaebler, *Reinventing Government* (New York, NY: Addison-Wesley Publishing Company Inc., 1992).

### *(3) Should we prohibit the use of tax-exempt bonds for sports stadiums?*

As noted earlier, allowing stadium developers to use tax-exempt bonds to finance their projects amounts to a federal subsidy of as much as one-third of construction costs. This subsidy costs taxpayers much more than is immediately apparent because of the rule that tax-exempt bonds cannot be used if more than 10 percent of debt service is covered by revenues from the facilities. Arrangements that would have made a facility largely self-financing are scrapped to qualify for tax-exempt financing, leaving taxpayers to pick up the bulk of the expense.

Tax-exempt financing is also especially *unfair* to taxpayers. Residents of a city that uses tax-exempt bonds to finance a stadium enjoy all of the benefits of hosting a professional sports franchise—as slim and fleeting as they may be—while paying only a small fraction of the total cost imposed on taxpayers. People in rural areas and in cities that do not use tax-exempt bonds help pay for the subsidy but receive none of the benefit.

A handy model for fan ownership of a professional sports franchise exists in Green Bay, Wisconsin.

Dennis Zimmerman has shown how prohibiting the use of tax-exempt bonds for stadiums would dry up about $100 million a year in subsidies.[109] While not a complete solution, Senator Moynihan's Stop Tax-exempt Arena Debt Issuance Act (STADIA) would end this most unfair form of subsidization and remove the perverse incentive to minimize the amount of revenue generated by a facility. Regardless of whatever other reforms are adopted, this simple and long-overdue step should be taken.

## A better idea: Let fans own their teams

There is a way to prevent teams from pitting one community against the next for enormous subsidies, without passing new and possibly counterproductive regulations, and without infringing on the freedom of states to compete legitimately for economic development. It is to allow fans to own and manage teams through nonprofit corporations.

### *The Packer Model*

A handy model for fan ownership of a professional sports franchise exists in Green Bay, Wisconsin. It has these features:[110]

---

[109]Dennis Zimmerman, supra note 7, pages 22-23.

[110]This description is drawn from several sources, including James Quirk and Rodney D. Fort, supra note 3, page 417; Jeff Borden, "Forget McDome: Buy the Bears," *Crain's Chicago Business,* March 24, 1997, pages 1, 40; and Mike Royko, "Chill Out, Bears Fans—Just Pretend that You're Cheeseheads," *Chicago Tribune*, November 8, 1995.

- In 1923, the bankrupt Green Bay Packer NFL franchise was bought by a private nonprofit corporation for a $2,500 loan. In 1950, to fend off a proposal by Earl "Curly" Lambeau to become a for-profit corporation, the board of directors sold stock at $25 per share, raising $118,000 and putting the team on firm financial footing. An additional 400,000 shares were approved for sale in late 19197.[111]

- Stockholders meet once a year to elect 15 members to a 45-person board, which in turn elects a seven-person executive committee to oversee operations of the nonprofit corporation. Only the president-CEO is paid.

> "All the profits we make go back into the club in the form of facility improvements, players or endowments."

- No dividends are paid on the so-called "souvenir stock," which cannot be sold or traded for more than its original price. No shareholder can hold 200 shares or more.

- In the unlikely event that the team is ever sold, the vast majority of the proceeds are assigned by the corporation's bylaws to a local Veterans of Foreign Wars post.

Since the owners cannot derive a profit from the team, according to Packers Chief Financial Officer Michael Reinfeldt, "all the profits we make go back into the club in the form of facility improvements, players or endowments. It's an advantage we have."[112] Indeed, the ban on distributing an organization's earnings to private investors is what enables nonprofit organizations to put non-market objectives, such as staying in Green Bay, Wisconsin, above opportunities to earn a higher rate of return on capital.[113]

### ***The Packer Model has produced impressive results***

The results of this arrangement have been good for the host city, the fans, and the team. The Packers are the least-subsidized professional sports team in the country,[114] despite the small size of their market and the fact that Lambeau Field, their 40-year-old stadium, generates only $5 million a year in revenue from club boxes. (By contrast, the Dallas Cowboys expected to receive

---

[111]Jim Harding, "A Piece of the Packers For Sale, If Shareholders Approve," *Chicago Tribune*, October 11, 1997; and "MoneyTalks,"*Chicago Tribune*, November 13, 1997.

[112]Jim Harding, supra note 111.

[113]Susan Rose-Ackerman, "Altruism, Nonprofits, and Economic Theory," *Journal of Economic Literature*, Vol. 34 (June 1996), pages 715ff.

[114]Dennis Zimmerman, supra note 7, page 7. Lambeau Field received an estimated subsidy, in 1989 dollars, of $143,000, versus an average $6.7 million for 21 stadiums.

between $30 million and $40 million from 379 luxury suites in 1997.[115]) The City of Green Bay actually makes money on its stadium: About $500,000 in net revenue was projected for 1996, to be spent by the city as it wishes.[116]

> The Packer Model even earned the admiration of the much beloved Chicago columnist, Mike Royko.

Another result of fan ownership of the Packers is a well-publicized love affair between the team and the entire state of Wisconsin. One cannot walk down a street in many of the state's cities and towns without seeing the distinctive green and gold Packer logo on flags, bumper stickers, decals applied to living room windows, jerseys, banners, painted on the faces of children or carved into their hair, and seemingly everywhere else.[117] This affection predates by many years the team's 1997 Super Bowl victory, and was sustained despite a 23-year period during which the team failed to make it to a single Super Bowl.[118]

The Packer Model even earned the admiration of the late and much beloved Chicago columnist, Mike Royko, who was otherwise no fan of his neighbors to the North. In a 1995 column, Royko wrote:

> If there is one team that truly deserves to be called America's Team, it is in the most unlikely community to have a major league sports franchise of any kind. Yes, I'm talking about little Green Bay, Wisconsin and its Packers.
>
> You don't hear the owners of the Green Bay team whining that they are not rich enough or trying to shake down the local taxpayers for new goodies that will make them even richer.
>
> That's because the Packer franchise is owned by the kind of people who should own every football franchise.
>
> Basically, it is owned by the people of Green Bay. And it would be almost impossible for the team to go anywhere else because no one individual owns a big enough piece to do it.[119]

---

[115]Edward Robinson, supra note 53, page 57.

[116]"New Lease," *The Appleton Post-Crescent*, November 30, 1995.

[117]Tom Richards, a columnist for the *Post Crescent* published in Appleton, Wisconsin, reports that the Packer logo "is more nearly ubiquitous than the cross in a convent." See "Holy Cow! '97 Spotted with Green, Gold and Pink," *Post Crescent*, December 28, 1997, page D-1. See also David Southwell, "They're Green, But It's Not Envy," *Chicago Sun-Times*, January 15, 1998, page 6.

[118]The 23-year gap in the Packer's championship record may explain the missing generation in the following quotation from former Packer great Ray Nitschke: "From grandfather to grandchild, everyone feels like they own a piece of the team. That makes all the difference in the world." Quoted in Dan Bickley, "They Own It, They Live It, They Love It," *Chicago Sun Times*, December 9, 1994, page 130.

[119]Mike Royko, supra note 110.

***Widespread adoption of the Packer Model would reduce stadium subsidies***

While the Packer Model is attractive in many ways, most important for our purposes is that it substantially reduces the chance that the franchise will threaten to move to a different community to cash in on the bidding war occurring elsewhere. The Green Bay Packers are effectively "out of the bidding" due to the ownership of stock by persons living in Green Bay and surrounding areas, and federal laws requiring that the proceeds of a sale be given to another charitable organization. Taxpayers and fans in each city that hosts a Packer Model team would benefit from the same security.

> Another result of fan ownership of the Packers is a well-publicized love affair between the team and the entire state of Wisconsin.

Similarly, because the Packer Model team competes for fans with teams in other leagues and serves as a model of unsubsidized operation, other sports franchises *already in that city or metropolitan area* will find it more difficult to campaign successfully for subsidies to stay. In the case of a large city that has several professional sports teams, a single team adopting the Packer Model would reduce the negotiating leverage of as many as four other sports franchises.[120]

Taxpayers and fans throughout the country also would benefit when any one city adopts the Packer Model. Since different sports compete among themselves for fans, as was described above, the city that hosts a Packer Model team becomes less likely to entertain subsidy requests from franchises in *other leagues*. Cities, particularly those in small or medium-sized media markets, may well be satisfied hosting one major league team. Since the number of moveable teams in those other leagues remains unchanged, they would *all* lose leverage against taxpayers in the remaining cities.

The fact that fans own the Green Bay Packers, and that this explains why the team has never threatened to relocate, is mentioned repeatedly by critics of stadium subsidies. How much more critical attention would come to bear on stadium subsidy proposals if, instead of only one fan-owned team in the country, there were a dozen? What if there were one in each of the top five media markets? The result would almost certainly be a dramatic reduction in stadium subsidies.

[120]The nonprofit ownership of the Green Bay Packers may be one reason why other professional sports teams in Wisconsin receive few subsidies. The NBA Milwaukee Bucks play in the privately financed Bradley Center (although that project did receive some city aid in the form of land and infrastructure), and the MLB Milwaukee Brewers play in 45-year-old Milwaukee County Stadium, the fourth-oldest baseball stadium in use. A new tax-subsidized stadium was approved by the Wisconsin legislature in 1995 despite voters rejecting the plan by referendum. One legislator was recalled and removed from office by angry taxpayers. See Mandy Rafool, "Playing the Stadium Game," *Legislative Finance Paper* # 106, National Conference of State Legislatures, June 1997.

### *Barriers to adopting the Packer Model*

The biggest barrier to more widespread adoption of the Packer Model is the presence of league policies against nonprofit ownership. The Packer's unique arrangement was grandfathered in when the Packers joined the NFL; league rules now forbid corporate ownership (whether for-profit or nonprofit). The other leagues allow for-profit corporate ownership but prohibit nonprofit ownership.

Approximately 52 MLB, NBA, and NHL franchises are owned at least in part by public companies, and the trend is unmistakably toward further public ownership.[121] Stock in the NBA Boston Celtics is even traded on the New York Stock Exchange.

The next barrier to replicating the Packer Model is the steep cost of buying an existing franchise. A typical NFL franchise in 1997 cost between $200 million and $300 million. Franchises in other leagues tend to cost less, but still often approach $100 million. Prices are so steep because they reflect the potential subsidies to be gained by threatening to relocate. Since a fan-owned team would never exercise that threat, its buyers are paying a steep premium for the right to retire their franchise's option to move.

> The biggest barrier to more widespread adoption of the Packer Model is opposition to nonprofit ownership by the leagues.

A third major barrier is opposition from the special-interest groups that benefit from the current arrangement. Current team owners, contractors, and players will vigorously oppose efforts to allow nonprofit ownership, since they profit from the bidding war and frequent relocation of franchises. However, three other elements of the current pro-subsidy coalition—fans, media, and elected officials—benefit from the presence of a professional team *but do not profit from the threat to relocate.* These latter interest groups could be mobilized on behalf of nonprofit ownership of sports teams.

### *What can be done?*

In November 1997, the owner of the MLB Minnesota Twins offered to give the team to a charitable foundation in return for taxpayers building a $250 million stadium.[122] The offer was not approved by the baseball leagues, but that such an offer could even be seriously discussed, and by a private owner at that, suggests that current team owners are not unified in their opposition to nonprofit ownership.

---

[121] Roy S. Johnson, "Take Me Out to the Boardroom," *Fortune*, July 21, 1997, pages 43; and Jason Vest, supra note 75.

[122] "A Plan" (unsigned commentary), *Chicago Tribune*, November 7, 1997.

The trend toward corporate ownership should make it easier to get one, and then all, of the leagues to agree to accept nonprofit corporate ownership. The step from corporate ownership to nonprofit ownership is a relatively small one. Corporate ownership already brings some of the advantages of nonprofit ownership: a greater sense of responsibility, more financial stability, and fewer personal agendas to the sports scene.[123] Public corporations, especially those involved in media, are more sensitive than private owners to public opinion. The Tribune Company, for example, is unlikely to ever threaten to move the MLB Chicago Cubs from Chicago, whereas the private owner of the White Sox demanded and received a taxpayer-financed stadium as a condition of remaining in the city.[124]

The NFL, the only league that allows neither for-profit nor nonprofit corporate ownership, is most vulnerable on this issue, particularly since the Packer Model is provided by an NFL franchise. NFL franchises are also the most lucrative for team owners, and football stadiums are the most expensive and most underutilized of the sports facilities seeking public subsidies. For all these reasons, the NFL would seem to be a prime target of the fan ownership movement.

A coincidence in the economics of stadiums and franchises may ease the adoption of the nonprofit stockholder model. The going price for an NFL franchise in a major media market in 1997, about $200 million, was close to the going price of a new state-of-the-art stadium. Rather than build a new stadium and give it to the owners of a professional sports franchise, the fans in some city could *just buy the team and keep the old stadium*. For a city the size of Chicago, it would cost about $85 a person in 1997 to buy the NFL Chicago Bears.[125]

Rather than build a new stadium and give it to the owners of a professional sports franchise, the fans in some city could *just buy the team and keep the old stadium*.

A key to the success of a campaign for fan ownership of professional sports teams will be the involvement of fan clubs, the media, and local elected officials. As pointed out earlier, all three groups are currently drawn by self-interest to be part of the pro-subsidy camp. Fan ownership could serve their interests even better by ensuring that once a team is in the community, it is likely to stay. The opportunity to sell stock—even "souvenir stock" *ala* the Green Bay Packers—could give subsidy opponents the financial stake required to keep them organized year after year. Local elected officials, retired professional players and coaches, and business leaders could be recruited to serve as chairmen and spokespersons for the effort.

---

[123]Roy S. Johnson, supra note 121, pages 42-47.

[124]Charles C. Euchner, supra note 9, chapter 6.

[125]Jeff Borden, supra note 110.

A coalition of fan clubs, taxpayer groups, and civic organizations could be formed to launch a concerted campaign to convince the leagues to allow ownership by nonprofit corporations. It would be inappropriate to lobby for *legislation* requiring the leagues to adopt such a rule, since this ought to be a voluntary decision by the leagues. The leagues would almost certainly respond to hundreds of thousands of letters and phone calls, perhaps as well as television and radio ads appearing during sports coverage and supportive editorials in newspapers and on radio, all urging the leagues to give fans the chance to own their favorite teams.

In recent years, the original founder of the now defunct U.S. Football League, David Dixon, has attempted to organize a league of fan-owned professional football teams.[126] Each team would start with an initial capital investment of $5.5 million, far less than the amount needed to buy an NFL franchise. Stock shares would then be sold to fans who would have majority ownership. This would seem to be a much more affordable approach than buying franchises in the existing leagues, though finding fan support for a new league could be difficult.

What if NBC and Turner Broadcasting were to provide start-up funding and guaranteed television coverage for Dixon's Fan League?

What if NBC and Turner Broadcasting were to provide start-up funding and guaranteed television coverage for Dixon's Fan League? Even an investment of $1 billion a year would be substantially less than what the other networks agreed in January 1998 to pay to broadcast NFL games.[127]

***Municipal ownership is not an acceptable option.***

Fan ownership, as discussed here, must not be confused with public or municipal ownership. The latter has been proposed at various times for teams in Boston, Minneapolis, and Los Angeles, and federal legislation that would compel the leagues to allow municipal ownership has been proposed by Congressman Earl Blumenauer (OR).[128]

Municipal ownership would seem to solve the biggest part of the team relocation problem—the ability of the team to threaten to leave would no longer exist—but the injustice of forcing some taxpayers to pay for the entertainment chosen by others would continue. If the team must first be purchased from its current owners, the expense could be in the hundreds of millions of dollars. Even if the current owners *gave* the team to the city, the city would still

[126]Bob Verdi, "His Fan-tasy? See New League Leave NFL in Dust," *Chicago Tribune,* February 27, 1996.

[127]This possibility was first aired by Rick Telander, supra note 102.

[128]Michael N. Danielson, supra note 9, page 299ff; Jason Vest, supra note 75.

grapple with the paradox of spending millions of dollars each year on professional athletes and stadium enhancements while more important public services go underfunded.

The inefficiencies of public management of enterprises of any sort[129] raise the possibility that any "savings" gained by buying out the profit-seeking owners will be lost to a different set of rent seekers who flourish in public bureaucracies, such as patronage workers and government managers.

Who, upon serious reflection, would want a mayor involved in such volatile decisions as which quarterback to start, or who to draft for next season?

Who, upon serious reflection, would want a mayor involved in such volatile decisions as which quarterback to start, or who to draft for next season? Mixing sports and politics even more than is currently the case would only be damaging to both.

[129]See, for example, Thomas E. Borcherding, Werner Pommerehne, and Friedrich Schneider, *Comparing the Efficiency of Private and Public Production: The Evidence from Five Countries*, Institute for Empirical Research in Economics, University of Zurich, Switzerland, 1982; and Charles Wolf Jr., *Markets or Government: Choosing Between Imperfect Alternatives* (Cambridge, MA: The MIT Press, 1988).

## PART 4

# Conclusion

The use of tax dollars to subsidize professional sports grew out of control during the 1990s. Cities that can barely afford to keep police and firefighters on the streets are nevertheless spending hundreds of millions of dollars to bid teams away from other, equally hard-pressed, cities. The competition is unfair to taxpayers and produces few if any economic benefits. Claims that professional sports produces “intangible” benefits are not plausible in light of other ways to achieve those same benefits and the emotional roller-coaster ride frequent team relocations have caused for fans.

The popular debate over whether to subsidize professional sports is often distorted by unbalanced media coverage and unsubstantiated claims of economic benefits flowing from hosting a professional sports franchise. The real reasons we subsidize professional sports are because more cities want franchises than there are franchises to go around; league rules reward teams that maximize non-ticket income from their stadium or arena; and special-interest groups that benefit from public spending out-organize and out-spend their opposition.

> Based on its many failures both in the U.S. and internationally, antitrust law should be recognized as a theoretically and practically flawed tool with which to solve so-called “market failure.”

The most direct route to ending stadium subsidies would seem to be using antitrust laws to force the leagues to expand the number of franchises and change “anti-competitive practices,” or to outlaw the use of subsidies by state and municipal governments. Each of these proposals has support by some prominent researchers in the field, and some progress has been made in some parts of the country to implement such policies. Senator Daniel Patrick Moynihan’s legislation preventing the use of tax-exempt bonds to support stadium and arena construction is the best of these proposals and is a promising place to start the reform effort.

Upon closer examination, direct routes to stopping stadium subsidies (other than Senator Moynihan’s legislation) come up short. Based on its many failures both in the U.S. and internationally, antitrust law should be recognized as a theoretically and practically flawed tool with which to solve so-called “market failure.” Even a “simple” rule banning public subsidies becomes complex and of dubious value when we realize how many loopholes and avenues for indirect subsidies are likely to survive such a rule.

The better solution is fan ownership structured along the lines of the Packer Model. Fan-owned teams are extremely unlikely to threaten to move to another city if they do not receive taxpayer subsidies. Fan ownership also gives a franchise a reservoir of popular support that cannot be matched by any of the other ownership models, with major benefits to both fans and sports.

Until fans and taxpayers become the owners of professional sports teams, their interests will take a back seat to those of companies and individuals who profit each time a team relocates. Sports stadium madness can't be stopped by passing a law or passing the blame. Fans and taxpayers—the people who benefit and the people who pay—need to work together to protect their shared interests. No one else will do it for them.

Until fans and taxpayers become the owners of professional sports teams, their interests will take a back seat to those of companies and individuals who profit each time a team relocates.

Making fan ownership a reality in cities across the country will require leadership and hard work by political leaders, journalists, business leaders, and fans. The effort involved in convincing the leagues to make the necessary policy changes, and then raising the funds necessary to purchase franchises from their current owners, may seem huge. But as David Dixon has said, "There are more of us than there are of those rich owners who want to get richer by getting into our pockets again."[130]

Distributed by **The Heartland Institute**, a nonprofit and nonpartisan public policy research organization. Nothing in this *Heartland Policy Study* should be construed as reflecting the views of The Heartland Institute, nor as an attempt to aid or hinder the passage of legislation. Additional copies of this study are available for $10 from The Heartland Institute, 19 South LaSalle Street #903, Chicago, IL 60603; phone 312/377-4000; fax 312/377-5000; email think@heartland.org; Web www.heartland.org.



[130]Bob Verdi, supra note 126.

**Interested in pursuing the fan ownership option?**

The Heartland Institute is compiling a database of fan clubs, taxpayer organizations, and individuals interested in exploring the possibility of buying their local professional sports franchise. If there's a movement underway in your community, it needs your participation! We can help you be a part of that movement. Call The Heartland Institute at 312/377-4000 for more information.


**The Heartland Institute**

19 South LaSalle Street #903

Chicago, Illinois 60603

phone 312.377.4000 ✦ fax 312.377.5000 ✦ e-mail: think@heartland.org

web: http://www.heartland.org


$10