

THE PROGRESS REPORT

Sports: Let the Fans Pay

By Fred E. Foldvary

Many cities subsidize their home sports team because the officials think that this helps their local economy. But the hot dogs and cola drinks that the sports fans gobble down do not add up to much for the local economy. Much of the profit goes to suppliers who are usually out of town. Thousands of people come to the games, and then they go home. This pollutes and congests the local environment without adding much to local income.

Most sports and entertainment facilities do not add that much to local taxes, but they might increase the land rent in the area. However, since real-estate taxes typically only take a small fraction of the land rent, much of any benefit goes to the landowners rather than the local government.

The sports facilities are not just paid for by local subsidies, but also by federal subsidies, since cities usually pay for the construction subsidy by selling municipal bonds. Since municipal bonds are mostly exempt from income taxes (including state income taxes for investors in the state), cities issue them at interest rates that are lower than federal and corporate bond rates. The exemption from income taxes is thus a subsidy for municipal bonds.

Economist Robert Baade examined 48 cities with professional sports teams and found there is generally no change in per-capita income when there is a change in the number of sports teams or stadiums. Another study by the Brookings Institution found that a new sports facility has either a negligible or a small negative effect on overall economic activity. A study by the Heritage Foundation reports that such public projects seldom pay for themselves in additional taxes.

To pay for the municipal bonds, cities typically levy extra taxes on restaurant meals, hotels, and car rentals. These raise some extra revenue, but they are counterproductive in raising the price of these services and reducing some of their business. If the taxes were instead on land rent, there would at least be no excess burden on the local economy, and any gain to local property values due to the expenditures would be recaptured by the government.

By financing sports facilities with municipal bonds, in effect the local city shifts much of the cost to the taxpayers of the whole country. The \$7 billion that will be spent on sports facilities now planned or under construction will have a federal tax subsidy of \$2.4 billion for the duration of the tax-exempt bonds. This subsidy induces local governments to build these projects, since even if they don't help the local economy, it is still a forced transfer of wealth from the nation to the city. Officials also think the teams and stadiums bring prestige to the city, and they can point to the projects as an accomplishment.

The national economy suffers as each city extracts funds from the rest of the economy to finance its local boondoggle projects. This is a municipal beggar-thy-neighbor negative-sum policy that

ends up hurting all cities. This waste is caused by federal, state, and local tax policies. The remedy is a complete restructuring of taxation, eliminating income and sales taxes, shifting instead to revenues from user fees and community rents.

Then if a city wishes to build a sports or cultural facility, it would have to borrow the funds at market rates and bear all the cost locally. Experience would then determine the effect of such facilities on land rent. If the projects increased land rent by more than the cost, then it would be worth building them. The positive impact of these projects would be greater, since local government would no longer be punishing fans from outside the city by adding to their hotel, meal, and car costs. We could then accurately measure the economic effect of sports teams and facilities. The evidence seems to indicate that there would usually not be much extra community rent from sports facilities. These should then be built with private financing only.

Even if sports facilities increase the local ground rent, that is still not a sufficient reason to municipalize them. Commercial activity in general increases ground rent, but then, the commerce benefits from the community infrastructure that serves it: streets, lighting, public transit, security, etc. A shopping center increases the rent around it, but the community around it also increases the rent of the shopping center. One could argue for community financing of facilities that add more to rent than they cost, but on the other hand, if the facility would be profitable without a subsidy and the rent is a bonus, then the project should be left to the private market.

The issue could ideally be resolved by making governance itself more market-like with communities that are voluntary associations of members and owners. A sports facility would then be an enterprise agreed to by the local community members and owners rather than imposed on the taxpayers for political reasons.