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Do Sports Stadiums Bring Economic Growth? They're a Hail Mary, at Best

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Will the greatest legacy of Brett Favre be a financial millstone around the neck of Minnesota taxpayers?

Last fall, Rep. Tom Hackbarth, R-Cedar, called for a new casino to pay for a new stadium to replace the Metrodome. More recently, Gov. Tim Pawlenty, also a Republican, resurrected the idea of a taxpayer-funded stadium for the Minnesota Vikings, and the team sent representatives to the Minnesota House Commerce and Labor Committee.

"The philosophical question is," Gov. Pawlenty said, "is this the appropriate time or the appropriate way to spend public dollars."

Great question. Unfortunately, he gave the wrong answer: "But we need to find a way — setting that [question] aside, we need to find a way to keep our Minnesota Vikings. They're exciting. They bring a lot of joy to a lot of people in our state."

With a hall-of-fame quarterback at the helm, the Vikings might go deep into the playoffs. The ensuing excitement, however, might overcome sound reasoning.

To start with, building a stadium for professional sports is income redistribution of the worst sort. Standard welfare programs can, at the least, claim to assist the neediest members of our state. Taxpayer funding of stadiums for pro sports, by contrast, is welfare for millionaires.

Welfare for sports millionaires robs money from more fundamental human needs, such as health care. It's morally perverse to cut welfare for the poor (as Gov. Pawlenty did with one health care program earlier this year) and then increase it for the wealthy.

Spending on sports welfare also sends a signal that Minnesota is not serious about much-needed budget reform. In light of the state's multi-billion-dollar structural budget deficit, it is irresponsible to spend up to $1 billion on a sports stadium.

Sports welfare also subsidizes passive recreation, putting it at a competitive advantage over healthier, more active recreation. Afton Alps, Buck Hill, Welch Village and Wild Mountain--all privately owned ski hills that have a season approximately as long as the standard NFL season--draw more customers to their slopes than the Vikings draw to the stadium. (No, I'm not suggesting taxpayer-funded snow-making equipment.)

Sports welfare also favors owners of sports teams, who tend to be multi-millionaires, over less well-endowed business owners who compete for the public's limited time and entertainment dollar.

Perhaps the longest-lasting ill effect of public financing of stadiums, though, is how it promotes fallacious economic thinking. Repeatedly and across the country, politicians and team owners tout new stadiums as engines of economic development. And repeatedly, academic economists who study the matter find the claims fall short. (Not all, but most.)

Here's one way to evaluate the economic effect of professional sports: If cities that build new stadiums or host major events enjoy an economic benefit from doing so, they should collect more sales taxes as a result.

But a recent report found nothing of the sort. The Southern Economic Journal published a study by Robert A. Baade, Robert Baumann, and Victor A. Matheson, who looked at the economic effects of the four major professional sports leagues as well as the World Cup and NCAA Men's Final Four basketball events.(Baade is an economics professor at Lake Forest College, Lake Forest, Ill., and Bauman and Matheson and economics professors at Holy Cross College in Worcester, Mass.)

For a piece of academic economic literature, it's quite readable. First, it reviews the claims made by sports promoters: A Super Bowl has an economic impact of $400 million for the host city, NFL and NBA teams bring $200-$400 million worth of spending each year, and so forth.

Yet these studies, which are usually published before the events happen or the new stadium is built, have many problems, according to the study: They over-estimate the number of visitors. They neglect the fact that people who spend money on a ball game aren't spending it on something else. They over-estimate the impact of out-of-town visitors, underestimate the harm that other businesses incur as a result of sports-related congestion, and over-estimate the amount of money that stays in the area after the event.

In their study, Baade and his co-authors concentrated on four metropolitan areas in Florida, which now boasts multiple professional teams in baseball, basketball, football, and hockey. Their hypothesis was that if sports teams have an economic impact on a city, tax collections should fall if the league suffers a strike or lock-out. Conversely, a city that hosts a major one-time event should enjoy a substantial increase in sales and excise tax revenue.

They used monthly tax data, collected over 25 years, to test the hypothesis, and sophisticated mathematical tools to isolate the effects of sports from other factors that might influence tax collections, such as changes in employment and population.

The three economists found some interesting results: Half the time, the effect was the opposite of what you would expect would happen if sporting events were good for the economy. Even when an event did produce a statistically significant increase, it was much less than forecast. For example, the 1999 Super Bowl brought the Miami area just under $100 million in sales taxes, a far cry from the $670 million boosters predicted.

The authors conclude that “not only do the results … fail to support the boosters’ claims, but these results can actually show that the boosters’ claims are demonstrably wrong.” They finish by saying “It would appear that ‘padding’ is an essential element of many games both on and off the field.”

Legislators and members of the public ought to keep that caution in mind.