

Intelligence MEMOS



From: John Palmer
To: Concerned Calgarians
Date: September 19, 2017
Re: **BREAD AND CIRCUSES REVISITED. THE REALITY OF TAXPAYER SUPPORT FOR ARENAS**

Calgary is in the middle of the traditional Canadian big-city dance in which a professional sports team, the Flames hockey club in this instance, is demanding that taxpayers foot much of the bill for the construction of new arenas.

The arguments for the public benefit of such an investment are generally twofold: the multiplier effect of such spending is of huge benefit to the city involved and that a sports team brings non-pecuniary benefits that enrich the civic landscape.

I analyzed these arguments in a [2002 paper](#) and found them as flawed then as now.

The benefits of having sports or cultural businesses in a community are not nearly as large as their proponents argue. One way to analyze those benefits is to look at the multiplier effects of spending on sports and culture. It is important, however, to look at new spending on sports or cultural events; if such spending is simply diverted from other spending in the community, there will be no multiplier effect. Also, it is often the case that much spending in a local economy tends to be for goods and services produced outside that economy. The upshot is that the multipliers for spending on sports and culture tend to be small, and might even be zero or negative in some cases. Because the multipliers are low, new job creation is minimal. And many of the jobs that are created come at the expense of jobs and business in other locales.

The second type of benefit involves nonpecuniary benefits: the argument that having more sports and culture in a community improves the ambience, morale, civic pride, and desirability of living in it. The problem with this argument is that it is difficult to evaluate. To the extent that it has merit, however, the effect should be an increased demand for residential housing in the community. In towns such as Stratford and Niagara-on-the-Lake, Ontario, which host internationally recognized theater festivals, this increased demand shows up in the form of higher real estate values. Whether major league sports franchises or regional cultural events cause the same increase in demand is less clear — the increased demand does not show up in, for example, the housing data for Green Bay, Wisconsin, home to a major league football franchise.

I have always been skeptical of claims that the spinoff effects from sports and cultural businesses are large. Most such arguments seem to be based more on what economists call “rent seeking” than on solid economic analysis, meaning that these arguments tend to be put forward by individuals and groups who stand to benefit directly from having governments support such businesses. The beneficiaries of government support for sports and culture typically include the higher-income individuals who attend such events and who would have to pay more for their tickets or settle for lower-quality events if governments did not support them.

The research leads inexorably to the conclusion that the benefits from having sporting or cultural activities are not nearly as large as their proponents argue. Given the small size of these benefits, proponents of government funding for such activities must look elsewhere for their justification.

In the current example, Calgary wins in one of two ways:

1. They don't build a new arena and the Flames stay.
2. They don't build a new arena and the Flames leave.

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