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Game of Cronies: Florida's Taxpayers Lose Out to Crony Capitalism

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Florida's legislature has exhibited a fiscal conservatism that is rare among state governments of its size.¹ During the 2008-2009 recession, many states increased tax rates to cover liabilities, but Florida chose instead to reduce its spending level in inflation-adjusted terms. This fiscally conservative policy put less financial stress on residents and businesses at a crucial juncture in history enabling Florida's economy to bounce back more quickly in comparison to other states and the national average.²

However, Floridians must remain vigilant over the spending of their tax dollars by government officials. Some public policies continue to corrupt and erode sound fiscal policy through their lack of transparency and efficiency. The procedures in place to monitor these policies have limited accountability for outcomes, as well as create greater

opportunities for special interests to gain at the expense of the public.

Such is the case with some targeted grants, tax incentives, and subsidies given by the state to well-connected special interests in what is widely referred to as "crony capitalism." Watchdog groups should stay vigilant in the battle against cronyism in Florida's regulations and tax system as this will create more consistency in our economy, ensure equal opportunity to the fruits of entrepreneurialism, and promote long-term economic health and prosperity.

Crony Capitalism in Florida

Cronyism, or "crony capitalism," refers to an economic system where business success depends on close relationships with government officials and programs.

*“The economic elite influence the government’s economic policies to use regulation, government spending, and the design of the tax system to maintain their elite status in the economy,” writes Florida State University economist Randall G. Holcombe. “The political elite are then supported by the economic elite which helps the political elite maintain their status; an exchange relationship that benefits both the political and economic elite.”*³

By influencing the constraints under which they operate, economic interests hope to insulate themselves from the competition and the natural functions of the market. A policy that encourages entrepreneurs to compete for subsidies and incentives on the basis of political connections and qualifications, rather than the price and quality of their product or service, is considered an example of crony capitalism.

Crony capitalism at the national level has been widely acknowledged as unfair and inefficient by both right and left sides of the political spectrum,⁴ whether in the form of bank bailouts, industry-specific subsidies, nontransparent bidding for government contracts, or a host of other policies.

State-level examples of crony capitalism have received less attention. This study illuminates crony capitalism at the state and local level by focusing on two public policies in Florida:

- **Film industry tax incentives**
- **Sports stadium subsidies**

In each case, these policies have failed to bring the level of widespread economic benefits promised by supporters of these politically connected businesses. However, significant benefits and advantages have been bestowed on special interest groups pushing for these industry-specific policy changes.

Sports Stadium Subsidies

In advance of any sports stadium construction or renovation, public officials and consulting firms, usually hired by the interests promoting the project, frequently tout a project’s economic benefits in order to garner support for taxpayer subsidies to offset the private cost. Yet, most independent academic studies show a majority of sports stadiums across the nation have little to no significant impact on local employment and income.⁵ Using taxpayer dollars to help build

stadiums is more likely to enrich stadium owners and team franchises than the communities they are purporting to give back to. A study of major league baseball teams between 1950 and 2002, for example, found that new stadiums boosted short term attendance, but not long-term employment and consumer spending, suggesting those benefiting most from these subsidies are the owners of the teams.⁶

Between 2010 and 2012, the Florida legislature committed tax incentives worth \$2 million per year to fund construction costs of stadiums for 30 years.⁷ Between 1994 and 2014, Florida taxpayers paid for nearly \$268 million in subsidies for professional sports teams.⁸ Since 2014, the Sports Development Program has allowed lawmakers to dispense up to \$13 million a year to fund construction and renovations of a variety of stadiums.⁹ Stadiums are also eligible for funding from Florida’s tourism development tax, a local option sales tax levied by counties on hotel room rentals.¹⁰ This tax is politically popular because the public perception is that Floridians aren’t as likely as out-of-state visitors to pay it; as a result, public opposition to this type of tax increase is reduced. Yet, Floridians traveling to other parts of the state to watch their team play will in fact pay this tax. Additionally, local governments often donate publicly-owned land, award tax abatements, zoning variances, and targeted public infrastructure investment for stadium construction, and these benefits are not often included in the estimates of total subsidies provided to these sports franchises.¹¹

In recent years, at least four stadium construction and renovation projects around the state have sought public funding.¹² The Daytona Speedway and Miami’s Sun Life Stadium alone have requested a combined \$90 million.¹³

Government support for private sports franchises is not unique to Florida. Before the 1950s, most professional sports facilities in the United States were privately owned.¹⁴ Over time, competition among cities to attract or retain professional sports teams gave franchise owners the political opportunity to transfer property tax liability, and eventually ownership of their facilities, to the public sector.¹⁵ This takes valuable land off the property tax rolls for the benefit of select team owners.

Meanwhile, the economic benefits of these subsidies have been illusive, at best. For example, after baseball stadium construction and renovations took place in Miami and Tampa, promised increases in attendance never materialized.¹⁶ After a \$10 million renovation

in 2006, annual attendance at Tampa Bay's Tropicana Field went from 1.4 million in 2006 to a record low of 1.2 million in 2016.¹⁷ For the Florida Marlins, average per game ticket sales plunged 37 percent after their 2012 inaugural season at Marlins Park. The new field cost \$634 million to build, paid for by Miami-Dade County. It was later revealed that team owners misrepresented finances, spurring an investigation by the U.S. Securities and Exchange Commission and the eventual recall of Miami-Dade Mayor Carlos Alvarez.¹⁸

In principle, taxpayers should never be on the hook for investments that primarily benefit private franchise owners. Investments in Major League sports franchises may earn a return on investment for their owners, but politicians expose taxpayers to the risk of failure when they aid and abet this spending through public subsidies. If a profit opportunity exists, then private investors should be able to fund the project. Recent soccer stadium construction illustrates that public investment may not be necessary. Investors in Major League Soccer teams chose to forego subsidies for stadiums in Orlando and Miami,¹⁹ demonstrating public subsidies are unnecessary for profitable enterprises.

In the case of the Miami Dolphins stadium project, the clearest case for rejecting these types of crony subsidies becomes clear. In 2013, the Florida Legislature said "no" to the Dolphins request for taxpayer funding of its private stadium upgrades. The Dolphins organization cried foul, claiming that the State was going to lose out on Super Bowls as a result. The team owner, however, paid for the stadium upgrades himself and the Dolphins were awarded the 2020 Super Bowl – without any crony subsidies costing taxpayers.

The Flaws in Input-Output Analysis for Stadium Subsidies

Proponents of public subsidies often use economic impact studies conducted by consulting firms to argue that new stadiums or arenas offer tangible benefits. These studies typically employ a method called input-output analysis, which uses economic multipliers derived from historical spending patterns among different industries to estimate the effects of a public investment on the local economy. Unfortunately, these studies consistently overstate the economic impact of such projects and are often very misleading.²⁰

Input-output analysis assumes that all new spending

is a net increase to the economy, rather than a redistribution of spending from other parts. This ignores the potential for misallocation of scarce and mobile funds from one sector of the economy to less productive sectors. Also, the multipliers – projections of future spending impacts – used in these analyses can change, particularly over long periods of time, because of economic shocks such as spikes in gasoline prices or recessions, technological change, and shifts in consumer preferences that radically alter economic relationships among industries.

Finally, input-output studies ignore the effects of debt and high borrowing costs, which can diminish a community's long-term growth by increasing future borrowing costs or necessitating higher taxes to pay off bonds. The actual benefits of public investments in stadiums consistently turn out to be less than the projections made in economic impact studies.²¹

A study by Florida's Office of Economic and Demographic Research (OEDR) examined data on actual past performance and found that sports stadiums consistently generated a negative return on investment, meaning these investments are a net drain on state budgets.²² The OEDR's finding is consistent with a large body of independent academic research, which finds little to no positive effect on the local economy resulting from stadium construction. For example, economists Dennis Coates and Brad R. Humphries summarize their review of the extensive academic literature by writing

*The large and growing peer-reviewed economics literature on the economic impacts of stadiums, arenas, sports franchises, and sports megaevents has consistently found no substantial evidence of increased jobs, incomes, or tax revenues for a community associated with any of these things. Focusing our attention on research done by economists, as opposed to that of scholars from public policy or urban development and planning departments, we find near unanimity in the conclusion that stadiums, arenas and sports franchises have no consistent, positive impact on jobs, income, and tax revenues.*²³

Why would this be? Part of the answer is that household spending on sports is highly substitutable for other forms of entertainment.²⁴ Locals may spend more on game tickets, but will spend less on other entertainment and retail items. Additionally, the transportation

and hotel capacity of a city cannot simply increase to accommodate out-of-towners, so an influx of sports fans just displaces other would-be visitors.

In fact, net job creation and income growth can even be negatively influenced by some facilities. Retail sales, hotel occupancy rates, and passenger enplanements did not increase in cities hosting Super Bowls and Olympic Games between 1993 and 2003.²⁵ Beijing's visitors actually declined year after year following August 2008, the year the country hosted the Olympics.²⁶ Between 1980 and 2005, mega-events hosted in Florida, ranging from the World Cup to the World Series have been associated with reductions in taxable sales of about \$34.4 million per event.²⁷

Those who benefit from new sports stadiums are not necessarily local workers and businesses, but often well-connected special interests. Team owners ultimately receive the profits from taxpayer subsidies.²⁸ Between 2012 and 2013, the valuation of Major League Baseball's 30 teams rose 35 percent on average.²⁹ The valuation of the National Basketball League's 30 teams jumped 74 percent on average during the same period.³⁰ Those returns undermine claims that subsidies are crucial to the success of the franchise.

Indeed, the valuations alone should support their ability to borrow funds for capital investments such as those in sports stadiums and arenas. Sports franchises prove to be a negative return on investment of taxpayer money – money that would otherwise be used for infrastructure, education, or other necessary public services. Moreover, the vast majority of sport-related spending pays the salaries of athletes, coaches, and owners who (unlike staff at, say, a movie theater or restaurant) often live in other cities. This means lower spending multipliers compared to other forms of entertainment.

Despite promises from consulting firms, team owners, and public officials, buildings themselves do not create lasting job growth. Construction of stadiums will employ laborers, craftsmen, and professionals, but those jobs disappear once the construction is finished. Sustainable increases in employment require that facilities be used productively throughout the year, as opposed to the seasonal nature of sports seasons.

Film Tax Incentives

Like professional sports subsidy boosters, proponents of taxpayer subsidies for film and television production claim that these “investments” give a boost to Florida's economy and allow Florida to be more competitive, but



Production vehicles in Miami, FL

most economic research indicates precisely the opposite. Tax incentives for the film industry do not lead to sustainable economic development, but do enrich out-of-state film production companies.

Between 2000 and 2010, states provided almost \$6 billion worth of these incentives nationwide.³¹ Louisiana began the trend in 1992, and several states followed suit by establishing taxpayer-funded incentive programs to encourage film and television productions to locate in their state.³² In 2010, 40 states offered a combined \$1.4 billion in film and television tax incentives.

Despite enthusiasm from legislators, most of these programs don't realize a return on investment to even pay for themselves.³³ To pay for these incentive programs and balance their budgets, states have to cut spending or raise revenues elsewhere, dampening whatever positive economic effects exist.

Two basic types of film tax incentives are available in Florida. The Entertainment Industry Financial Incentive Program, created by the Legislature in 2003 and modified in 2010, offers a transferable tax credit on 20 percent to 30 percent of qualified expenditures.³⁴ The Entertainment Industry Sales Tax Exemption can be applied to production-related goods and services, and has existed in its current form since 2000.³⁵ The state reimburses

qualifying productions, rather than a point-of-sale exemption that some other states use.

Depending on the category, the minimum and maximum spending levels vary for productions to qualify. Productions that use students enrolled in a Florida university are eligible for an additional credit of 15 percent for student wages and salaries. Tax credits worth an additional five percent of expenditures are awarded for family-friendly productions, off-season productions, and those occurring in an “underutilized area” of the state. The incentives are administered by the Office of Film and Entertainment (OFE), which also helps production companies find and obtain access to filming locations. The OFE has over 60 offices around the state.

The 17 board members on the Florida Film and Entertainment Advisory Council provide the OFE with “industry insight and expertise related to developing, marketing, promoting, and providing service to Florida’s entertainment industry.” Among the council’s objectives are to “strengthen film and entertainment industry planning and cooperation among public sector agencies and private sector organizations.”³⁶

So why has Florida’s state government become so involved in the movie business? Supporters claim film tax incentives create jobs and encourage tourism.³⁷ However, over 80 percent of the jobs created are temporary, part-time positions, often transplanted from other states.³⁸ This dampens any multiplier effects the program might have. An Office of Economic and Demographic Research (OEDR) survey of Florida tourists revealed that film is not a significant influence on their decisions to vacation in the state.³⁹ This weakens the tourism argument. In addition, competition among states with incentive programs means a sizable piece of the potential gains go to the movie industry, not to local businesses. Production workers are employed in the state for only a short time, and the loss in revenue through tax subsidies isn’t made up with sales at local businesses because of their brief stay. Thus, the revenue benefit goes to the out-of-state film company, improving the film company’s bottom line (and its owners) without creating long-term benefits for the Florida economy.

A 2015 report by OEDR found that Florida’s entertainment industry incentive programs had committed \$296 million in incentives since 2010. Between 2010 and 2012 these programs had a low or negative return-on-investment (ROI).⁴⁰ An ROI of less than one means that every dollar spent on the program resulted

in less than a dollar in new tax revenues. The sales tax exemption had an ROI of 0.54, while the transferable tax credit generated an ROI of at most 0.43.

Further, the Florida Office of Program Policy Analysis and Government Accountability (OPPAGA) has found administrative problems at the OFE.⁴¹ Staff reported a four- to eight-month turnover time to review and approve audits of sales tax exemptions. There was also evidence that program managers awarded sales tax exemptions on purchases made before companies had applied for the program, which the law doesn’t prescribe. Approximately 25 percent of exemption applications had this problem.

Florida’s film industry plays an important role in the economy. As of 2014, Florida ranks third in the nation, behind only California and New York, for its number of film and television production companies, with 5.7 percent of total industry establishments located in the state.⁴² The Spanish language channel Telemundo is based in Miami, while Univision has major studios and offices in Doral, Florida.

However, little evidence suggests special tax treatment and tax incentives are crucial to sustaining the industry in Florida or are necessary to ensure the industry’s long-term competitiveness. The OFE’s 2013-2018 five-year plan correctly states that “Florida’s year-round sunshine, moderate climate, diverse scenery” and other factors give it a competitive advantage in this industry.⁴³ According to IBISWorld industry market research, production companies are attracted to “regions that have developed significant studio and production facilities.”⁴⁴ Tax incentives are low on their list of factors influencing production facility location decisions. Florida’s film industry has experienced success for reasons other than its tax incentives. Taxpayer dollars, therefore, are not necessary to sustain it. A far better approach would be to invest in the infrastructure, business climate, and regulatory system that would both encourage the industry to seek out Florida as a destination and benefit Florida communities long-term.

Shows like Netflix’s *Bloodline* and HBO’s *Ballers* have continued in South Florida, with or without incentives, as have many others. *Bloodline* committed to a third season of filming even after the incentive fund expired in 2016. Meanwhile, films and television shows set in Florida but film elsewhere still provide exposure and advertising at no cost to the Sunshine State. While *Ballers* recently moved to California after being lured by an expanded state subsidy program, the show will still

be set in Miami. Moreover, in order to compete, Florida would have to significantly increase its own level of subsidies, making the return on investment even lower. Rather than double down on a spending program with negative returns, Florida should let itself benefit from the incentive scheming of other states.

Film taxpayer incentives reward many productions that would have occurred in Florida without them, draining the public budget and putting financial stress on other spending priorities.⁴⁶ More than 60 percent of the companies applying for the sales tax credit are located in Florida, implying these taxpayer incentives do not attract much out-of-state money or additional business development.⁴⁷ This suggests that the ROIs for these tax incentives programs are even lower than EDR estimated.

Rather than enrich movie stars and millionaire executives and producers, Florida's legislators should focus on more proven economic development strategies that benefit Floridians.

Conclusion

Crony capitalism is much more than benign favoritism from politicians. When embedded in governmental institutions, cronyism can wreak havoc on a state's economy. Crony capitalism has recently been used to answer the very fundamental economic question of why some poor countries stay poor while others prosper.

In their book *Why Nations Fail*, economists Daron Acemoglu and James A. Robinson categorize political institutions as inclusive or extractive.⁴⁸ Inclusive institutions support prosperity by providing for the rule of law and fair democratic elections, while extractive institutions allow elites to control resources and enrich themselves at the expense of the broader population. Unsurprisingly, they observe a strong connection be-

tween cronyism in extractive institutions and less economic growth. University of Chicago economist Luigi Zingales has suggested that crony capitalism in Italy led over time to widespread disillusionment with markets and political institutions, which in turn hampered growth.⁴⁹ The long-term danger of crony capitalism is that it can cause people to distrust political institutions, markets, and each other.

The notion that government planners can effectively pick winners and losers is inconsistent with the design and implementation of these programs. Targeted subsidies inherently favor big businesses, and encourage the well-connected to game the political system rather than compete on the demand, quality and price for their goods in the marketplace. The cronyism that comes with targeted taxpayer subsidies creates costs, increasing uncertainty and stacking the deck against small businesses.

The misallocation of resources toward unproductive activities, whether that be stadium construction or film productions, diminishes the state's long term growth. A better growth strategy would be to simplify and lower taxes broadly. Spending should focus on infrastructure and other public services that small business owners and economists both agree are vital to long-term growth. Eliminating targeted subsidies and the bureaucracies that award them will create a more even playing field for business and improve Florida's economy long-term.

Florida's policymakers should provide a fair and low-tax environment for businesses to compete based on merit. To do that, no complex tax incentives or expensive special favors are needed. All that's necessary for success is fair, low taxes and broad, smart, revenue-dependent spending. With an open government guarded against special interests, the gains of capitalism can be had by all and economic opportunities will certainly increase for the benefit of all Floridians.

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