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SHOULD GOVERNMENTS OWN CONVENTION CENTERS?

By Edwin S. Mills

Taxpayer-financed convention centers have become increasingly popular with state and local government officials. Centers have been built or planned in most large cities and in many metropolitan suburbs and small cities and towns. <1> According to the International Association of Auditorium Managers, the convention industry's trade association, "work was completed or started . . . on 250 convention centers, sports arenas, community centers and performing-arts halls at a cost of more than \$10 billion" between 1975 and 1985. <2> Billions more may be spent during the 1990s. The enthusiasm for convention centers shows no signs of abating.

Why have government officials developed such an attachment to convention centers, during a period in which other government-run business activities are being returned to the private sector? Are taxpayers getting their money's worth, as feasibility studies conclude? Or do government-supported convention centers represent a subsidy for businesses, paid for by hard-pressed taxpayers?

Correct ways of analyzing these questions are not difficult to find. All that is required is careful thought and common-sense economic principles. This *Heartland Policy Study* addresses convention center issues by just such methods. A brief review of the issues is presented in Part I. In Part II, the author discusses the measurement of convention center construction and operating costs, while in Part III he explains how "multipliers" are used to predict convention center benefits. Part IV expands the analysis with a discussion of government *management* of convention centers.

The analysis points to several key conclusions, most notably that convention center construction, ownership, and management are business activities best left to the private sector. Government-owned and -operated centers rarely cover their annual operating costs, much less their capital costs. Contrary to popular belief, government subsidies to convention centers do not "multiply" into unique economic benefits that cannot be achieved by the private sector. Thus, in Part V the author recommends a course of action that includes an immediate moratorium on public financing of convention centers and privatization of existing government-owned and -operated facilities.

I. BACKGROUND

What is a convention center? The term is used loosely to refer to facilities that serve a variety of closely related activities. Conventions, in which members of a professional organization, political party, civic group, or business group meet to exchange views, are an important class of convention center activity. Trade shows, in which products are displayed, are a second important activity conducted in convention centers. A third category, public performances, includes concerts and sporting events. Indeed, in some cases there is no meaningful distinction to be made between a covered sports stadium and a convention center. Sometimes a single structure serves both purposes; at other times a convention center and a stadium are located near each other, as would be true of the proposed domed stadium and expansion of McCormick Place in Chicago.

The meetings and convention industry expanded rapidly during the 1980s; some \$28.2 billion was spent in 1987 alone. <3> According to a Laventhol & Horwath analysis of data reported in *The Meetings Market*, between 1979 and 1987 the number of conventions held nationwide increased at an average annual rate of 3 percent; total attendance increased at an average annual rate of 9 percent. <4> The Trade Show Bureau reports "a 68 percent increase in exhibit space during 1980-1987 and predicts a similar growth rate for the next decade." <5>

Convention center business is part of the economy's service sector, and the entire sector has been the source of rapid output and employment growth during the last decade. Convention center activities are important parts of business communication and marketing, public entertainment, and leisure activities. Assuming continued prosperity, such activities will almost certainly continue to grow rapidly through the 1990s.

Their important role in state and local economies notwithstanding, convention centers are controversial. At the heart of the controversy are questions as to who should plan, finance, build, and operate them.

At first glance, the answer appears obvious. Convention center operation and the many facets of the meetings industry are well-developed private business activities. Indeed, there are dozens of privately owned and operated convention centers, among them the International Exposition Center in Cleveland, Ohio; the Sands Hotel in Las Vegas, Nevada; the Valley Forge Convention Center in Valley Forge, Pennsylvania; and the Odeum Sports and Exposition Center in Villa Park, Illinois. Merchandising marts across the country have spacious exhibit areas and, depending upon how broadly you define the term "convention center," most major hotels qualify. The services provided by these private facilities are paid for by exhibition, admission, and related fees.

The fact that there is a large private convention center business suggests strongly that no special characteristics of the business justify government involvement. Nevertheless, many (probably most) convention centers are built and operated by government agencies. Virtually all of the largest downtown centers -- in New York, Chicago, Boston, Washington, Atlanta, Denver, and elsewhere -- are financed and owned by governments.

Why are tax dollars directed toward government-owned convention centers, when the services such centers provide appear to be the natural province of the private sector? Millions of dollars and significant non-financial resources are at stake. In the mid-1980s, the Jacob K. Javits Convention Center in Manhattan was constructed at a cost of \$478 million. <6> The first expansion of McCormick Place in Chicago -- currently the largest trade show facility in the nation -- cost over \$300 million, <7> and the facility's promoters are seeking an additional \$1.4 billion for further expansion. <8> The construction of the Philadelphia Convention Center will carry a price tag of \$523 million upon its completion in the mid-1990s. <9>

II. MEASURING THE COST OF CONVENTION CENTERS

Like any real estate facility, convention centers incur two types of costs: capital and operating. Capital costs are construction, land, architectural, consulting, and related costs incurred in building the center. Operating costs are recurrent annual costs incurred in operating the center, mostly labor costs. In most planning documents for large freestanding centers, annual operating costs are estimated to be from 2 to 4 percent of the capital costs. Annualized capital costs <10> are probably in the vicinity of 10 percent of original costs. Consider, for example, a typical convention center built in the late 1980s, with one-half million square feet of exhibit or meeting space. It might have cost \$250 million to build. Its annual capital costs would be approximately \$25 million; its annual operating costs might be about \$7 million.

The extraordinary and deeply disturbing fact is that, among all middle to large government-owned convention centers, few appear to generate sufficient revenues from sale of services to cover their annual operating costs, much less debt service and other annual capital costs. One survey, of 25 government convention centers with more than 300,000 square feet of meeting and exhibit space, found yearly operating losses averaged 42 percent of revenue. <11> By way of illustration, operating cost data for each of 17 civic centers financed by Illinois' Civic Center Support Act are summarized in Table 1 on the following pages. As noted by analysts for the Taxpayers' Federation of Illinois, which accumulated the data on the state's centers,

Of the 17 existing civic centers, three operate in the black, four break even, and (eight) run a deficit. Data for two others are not yet available. Of the seven facilities that appear financially successful, only the Egyptian Theater in DeKalb and the Pekin Civic Center do so without local operations subsidies.

. . . The lesson to be drawn from the history of the (Illinois) civic center program seems to be that few projects will be able to hold their own financially. <12>

TABLE 1

**ILLINOIS CIVIC CENTERS
OPERATING COST DATA**

<u>Center</u>	<u>Location</u>	<u>Sources of Revenue</u>	<u>Operating Surplus (Deficit)</u>
Prairie Capital Convention Center	Springfield	operating revenues local property tax	\$ 70,000 (FY 89)
MetroCentre	Rockford	operating revenues parking revenues hotel-motel-food-liquor tax	\$130,000 (FY 88)
Peoria Civic Center	Peoria	operating revenues hotel-motel tax amusement tax restaurant tax	(\$750,000) (FY 88)
Paramount Theater/ North Island Center	Aurora	operating revenues private donations annual city grant	(\$125,000) (FY 89)
Vermilion County Civic Center	Danville	operating revenues hotel-motel tax	(\$185,000) (annual)
Decatur Civic Center 89)	Decatur	operating revenues annual city grant	(\$183,000) (FY 89)
Rialto Theater/ Two Rialto Square	Joliet	operating revenues city grant	(\$ 83,000) (FY 88)
The Egyptian Theater	DeKalb	operating revenues Illinois Arts Council grant theater memberships endowment fund interest	break-even
Sandwich City Hall and Opera House	Sandwich	operating revenues theater memberships endowment fund interest corporate sponsorship program advertising	\$ 18,000 (FY 1988)

Source: Taxpayers' Federation of Illinois, *Illinois' Civic Centers*, June 1990.

TABLE 1
ILLINOIS CIVIC CENTERS
OPERATING COST DATA
(continued)

<u>Center</u>	<u>Location</u>	<u>Sources of Revenue</u>	<u>Operating Surplus (Deficit)</u>
Herrin Civic Center	Herrin	operating revenues corporate donations individual donations	break-even
Orpheum Theater	Galesburg	operating revenues annual city grant Illinois Arts Council grant private foundation grants	(\$ 9,535) (FY 89)
YWCA Community Center	Pekin	United Way donations membership fees room rental	break-even
Community Center	Mendota	operating revenues endowment fund	(\$ 20,000) (annual)
Shoemaker 89) Community Center	Princeton	membership fees room rental	(\$ 25,000) (FY
Orland Park Civic Center	Orland Park	operating revenues	N/A
Rochelle 89) Community Center	Rochelle	operating revenues	break-even (FY
Gateway Center	Collinsville	operating revenues hotel-motel tax food-beverage tax	N/A

N/A - data not available

Source: Taxpayers' Federation of Illinois, *Illinois' Civic Centers*, June 1990.

In 1985, San Francisco's Moscone Center lost \$2.5 million. <13> In 1989, the Washington, D.C. Convention Center -- 98 percent booked and routinely turning away business -- had operating revenues of \$7.4 million and operating costs of \$12.8 million. D.C. taxpayers made up the difference with \$5.4 million from the general treasury; they also paid about \$9 million in interest and principal payments on the \$100 million that the District borrowed to build the center in 1983. <14>

From a direct costs/direct benefits perspective, *convention centers clearly represent an unwise investment of tax dollars*. Unlike private investors who put their money into real estate or other investment vehicles, taxpayers can expect to receive no direct return on their capital investments in convention centers. Moreover, the need for annual *operating* subsidies suggests that taxpayers are unlikely to recoup even their initial capital investment. <15>

Government advocates of convention centers and their consultants always claim that *indirect* benefits to taxpayers justify the large direct subsidies. Similarly, advocates claim that the large indirect benefits from convention centers could not be captured by private investors, so government ownership is justified. The case for government ownership or subsidy of convention centers stands or falls on the validity of these assertions. If such benefits are not large relative to taxpayer-financed capital costs, government should get out of the convention center business, and leave it to private firms.

It should be noted that the benefits to be analyzed are ordinary economic concepts: jobs, earnings, taxes, and so forth. No one can reasonably claim that government sponsorship of convention centers will solve the drug problem, the poor quality of central city schools, or problems of racial tension and inequality. Convention center investments can be evaluated on the basis of conventional variables that economists know how to analyze.

III. MEASURING BENEFITS OF CONVENTION CENTERS

There is nothing mysterious or magical about convention centers. Like other real estate projects, convention centers are structures that can be used to generate services that are valuable to people and for which they are therefore willing to pay. Convention centers are not "black boxes" or "money machines" that generate benefits that can be understood only by witch doctors and other initiates. Their benefits can be estimated by the same techniques that are used to estimate the benefits of any other real estate project.

The benefits of a convention center (or any other business real estate project) are projected by

- o adding up the amounts people are willing to pay for the services produced by the project (the revenue stream);

- o subtracting from this sum the investment, labor, and other costs of operating the project (the cost stream);
- o estimating this amount for every year of the project's useful life (the annual cash flows);
- o and discounting by an appropriate interest rate back to the time of the investment. This end result is the "discounted sum of anticipated net revenues."

Doing the relevant forecasting, costing, estimation, analysis, and computing requires years of training and experience, and a rare combination of ability and intuition, but the details of the procedure are not of concern here. The issue here is whether convention centers are different from other real estate projects and whether government ownership is in the public interest. The answer to both questions is "no."

If a private business proposed to build and operate a convention center, it would proceed only if the discounted sum of anticipated net revenues exceeded the firm's estimate of the capital costs of the project. But if such a criterion were applied to feasibility studies of *government-financed* convention centers, virtually none would be built. Why do governments develop convention centers that apparently would not be undertaken by private developers?

Governments and their consultants invariably claim that convention centers generate important economic benefits that would not be generated by private developers. Without these alleged benefits, the claim of special status for convention centers falls to the ground. The benefits can be referred to as "multiplier effects" of convention centers.

A. The construction multiplier

It is claimed by proponents of government-run convention centers that each dollar a government spends to construct a convention center is a dollar of extra income on the part of the workers, suppliers, and construction company owners who do the work. Since they have a dollar of extra income, they spend most of it to increase their living standards, just as would anyone else who received an extra dollar. If the recipients spend \$.80 of the extra dollar, and save \$.20, the additional \$.80 of spending becomes added income for its recipients.

Specifically, a construction worker who earns a dollar working on a convention center will spend some of the extra income on food, clothing, entertainment, etc. for his family and himself. If the family's total extra spending adds up to \$.80, the \$.80 is additional income for suppliers of goods and services the family purchases. Recipients of the \$.80 of additional income also spend 80 percent of their extra \$.80 income, or \$.64. That becomes extra income for its recipients, who in turn spend most of it. The process is assumed to continue indefinitely. Economics textbooks show that for every extra dollar of spending, the total additional income generated is $1/(1-C)$ where C is the fraction of additional income spent by each recipient, .8 in the example. <16> Using

this formula, the "construction multiplier" for this hypothetical convention center project would be $1/(1 - .8)$, or 5. In other words, for every \$1 spent on constructing the new facility, a total of \$5 in increased income will result.

Not surprisingly, government officials whose communities develop convention centers are concerned with income generated by the centers within their own jurisdiction, not income generated elsewhere. The State of Illinois, for example, values only income generated for Illinois residents, not income generated for residents of other states. In fact, however, a proportion of the spending claimed to result from convention centers is spent on goods and services produced outside the government's jurisdiction. For example, if a construction worker on the convention center site actually lives in another state, or at least spends part of each dollar's extra income on a vacation outside the state or on a TV set produced outside the state, these are leakages outside the jurisdiction, and the multiplier must be adjusted to take them into account. After adjustments for leakages and tax effects, usual construction multiplier estimates are between 1.5 and 3.5. <17>

Government spending has no unique multiplier effects. Misrepresentation is inherent in government's use of the construction multiplier, because *there is nothing unique about government convention centers*. Whatever multiplier effect a government convention center might achieve, *the same multiplier effect would result from a private convention center*.

Just think what a wonderful world it would be if state and local government spending on real estate projects actually did have *unique* multiplier effects. We could simply turn over all real estate development to government agencies and they could spend the state into prosperity. The basic absurdity of the idea is apparent. Government spending does not have unique characteristics that generate prosperity in ways that private spending does not. Indeed, there is some empirical support for the conclusion that government officials spend money *less* wisely and productively than do their private, taxpaying constituents. <18>

Governments do not usually attribute explicit multiplier effects to privately financed real estate developments. It is assumed that if the private group did not spend the money developing Project A, they would instead spend it developing Project B. Thus, one multiplier effect would be obtained at the expense of a similar one, and the net multiplier effect of a particular project would be zero.

Exactly the same reasoning applies to projects financed by a government agency. State and local governments do not manufacture money. They get it from taxes paid by people who would have spent the money on other goods and services if they had not been required to pay the government. <19> The spending by individuals would have created exactly the same rounds of secondary spending that result from government spending on the convention center project. <20> Thus, the "negative multiplier effect" caused by taxation precisely offsets the positive multiplier effect of the government spending. <21> This is true regardless of whether new tax dollars or old tax dollars (redirected from some other use) must be used to finance the investment in a convention center. If they were not used for the convention center, taxes could be lowered, or at least not raised. The important point is that the money used by government to fund convention centers comes out of its citizens' pockets. It matters not whether taxes must be increased to serve this purpose.

Governments count costs as benefits. The use of a construction multiplier results in another important difference between how governments calculate benefits and costs of convention centers and how a private developer would make the calculation. *Governments count the locally paid wages and salaries on the construction project as a benefit, whereas a private developer would count them as a cost.* Putting labor costs on the *benefits* side of a cost/benefit analysis makes the project appear to be a better investment than it actually is.

The implicit assumption of government's approach to the calculation must be that the workers on the projects would be unemployed if the convention center were not built. No additional real income can be generated on the spending side of a project unless there are unemployed resources that can be put to work by the spending. In fact, however, the U.S. economy has been near full employment for two years. There are almost no unemployed workers or equipment that could be put to work building convention centers. (And even if there were, it is unlikely that the unemployed labor would be, or could become, union members -- a credential generally necessary for work on government construction projects.) This is not to say that there are no unemployed persons who would like jobs, but rather that very few of these persons could be put to work on large construction projects. Thus, available resources must be bid away from other, competing projects, thereby raising their costs or delaying their construction. These are significant "opportunity costs" rarely taken into consideration by the planners of government convention centers.

B. The outside money ("export") multiplier

A second multiplier benefit attributed to government convention centers is claimed to arise from the fact that most persons who attend events at these centers come from outside the jurisdiction. At large meetings and trade shows, most attendees certainly do come from outside the city, and many come from outside the state. For concerts and sporting events, most come from a much smaller area, perhaps from within a relatively large metropolitan area. <22>

Out-of-town conventioners spend money primarily on local hotels, restaurant meals, and evening entertainment, although also in retail shops and on local transportation. Estimates made in the late 1980s place expenditures per attendee at conventions at about \$125 per day, roughly \$500 for a typical convention. <23>

It is alleged that the money spent by convention attendees generates local income, and that the spending by recipients of this additional local income generates additional rounds of income and spending, resulting in a multiplier effect similar to that discussed above. Once again, leakages outside the jurisdiction must be estimated and subtracted from the calculated multiplier benefits.

Government spending has no unique multiplier effects. And once again, there is nothing special in the export multiplier calculation about convention centers or about government ownership. Any local business, private or government-owned, that produces goods or services for sale outside the jurisdiction generates multiplier effects similar to those generated by a convention center. A local manufacturer of automobiles sold outside the jurisdiction, a hospital that treats nonresidents for health problems, or a financial exchange that buys and sells financial instruments for nonresidents have exactly the same effect. Similarly, guests of most hotels come from outside the jurisdiction of the state or local government in which they are located. The sale of convention center services to nonresidents is an export from the jurisdiction no different from the sale of a locally produced car to a resident of another state.

The export multiplier concept is basically valid for all export sectors, but its magnitude is vastly exaggerated. As is true of the construction multiplier, the assumption implicit in the export multiplier calculation is that unlimited amounts of unemployed labor and other inputs can be put to work to produce the additional goods and services assumed to be produced in the various rounds of spending. If the local economy is fully employed, or if the unemployed do not have the skills and training needed to produce the goods and services demanded, the multiplier effect of new exports will be negligible, regardless of whether the producer is a government convention center or a local auto assembly plant.

Suppose a convention center is built in a community where there is full employment. Any new jobs at local hotels or restaurants, and the income those jobs provide, must go to workers who commute from other jurisdictions or to workers who move to the community to take the jobs that have been created. In neither case is there any benefit to residents already living in the community. Likewise, even though local workers may be unemployed, they will not get the jobs if they lack the skills, training, or credentials (e.g., union memberships) required.

Every community has at least some residents who would take jobs if they were available, but many communities in the late 1980s had very few. Any jobs created in such communities go to in-commuters or in-migrants. In a local economy that is anywhere near full employment, it is inconceivable that the outside money multiplier is anywhere near the range of 2.0 to 3.5, as is commonly assumed. <24>

Clearly, there is no guarantee that the initial spending of, say, \$500 per attendee will generate even \$500 of income for local residents, let alone additional income from subsequent rounds of spending. Many of the jobs immediately generated in local hotels and restaurants may go to in-commuters or to in-migrants, and many go to already-employed residents who are induced to change jobs by modestly higher pay. It is unlikely that subsequent rounds of spending would generate jobs and income for local residents if the initial spending did not.

It is likely that export sales generate some additional local income. State and

local governments have long recognized the economic potential of export businesses, and have sought to encourage their development. Yet rarely is it thought that the multiplier effects of export businesses justify government financing, ownership, and management. Rarely is it thought that outside money multipliers are larger than the total value of the goods and services produced by project. And rarely is it thought that the multiplier benefits are so large that investment is justified even if sales from goods and services produced do not generate enough money to cover operating costs. These assumptions attach to only a handful of export businesses -- and convention centers are among the most significant.

Taxes are no easier to export than direct fees for services. Sometimes the government bonds issued to finance convention center construction are wholly or partly financed by taxes on hotels and restaurants in the vicinity of the convention center. The justification given for such financing methods is that event attendees will use these facilities and thus indirectly pay the principal and interest cost of the bonds to finance the convention center that attracts them. But it is never explained why convention center attendees might be more willing to pay high taxes on hotels and restaurants than they would be to pay higher fees for the use of the center to retire the bonds. Do the advocates of government convention centers believe that convention planners can be tricked into booking a particular city's convention center by hiding the true costs in hotel, restaurant, and bar bills? It seems unlikely that convention planners or conventioners are so easily fooled.

In any case, the idea of having hotels and restaurants collect revenues to pay for a convention center is greatly oversold. Taxes that might be paid by attendees are rarely anywhere near high enough to pay the carrying costs of the bonds issued to build the center. <25> The capital costs of convention centers are predominantly paid by local taxpayers. These taxpayers are asked to provide what amounts to a large subsidy to nonresident attendees, a subsidy justified by the claim that it generates large indirect benefits to residents. But as we have seen, the procedures for calculating indirect benefits are fallacious or result in gross exaggerations of benefits.

IV. CONVENTION CENTER MANAGEMENT

Governments tend not only to develop, finance, and own convention centers, but also to manage them. Although this report focuses primarily on unnecessary government intervention in development, finance, and ownership, some comment regarding government management of these centers is necessary.

Government *ownership* of convention centers does not make government *management* necessary or even preferable. Commercial real estate management -- of offices, shopping centers, apartments, etc. -- is a well-developed sector of the private economy. Many commercial properties are managed by organizations other than those that own them. Some of these management firms are quite capable of managing convention centers, and some already manage privately owned facilities.

Incentives in the private sector. As is true of most activities carried out by both the private sector and government, convention centers tend to be more efficiently managed by *private* firms. Three mechanisms at work in the private sector make this

so. The first is competition. New profit-seeking businesses are free to enter the market and challenge existing firms that may be less efficient or less attentive to buyers' needs. The result is downward pressure on costs and upward pressure on quality and efficiency. In the government sector, competitive incentives are rare or, where they exist, perverse. For example, in the "competition" among government agencies for tax dollars, an agency that provides a high level of service within its budget is likely to be "rewarded" with a smaller budget increase than an agency unable to live within its means.

The second mechanism at work in the private sector is the investment of personal resources. In a private firm, owners have invested their own money in the business to earn a return, and that motivates them to manage the business efficiently or to hire managers who will do so. The consequences of mismanagement or waste are often direct personal loss. In the government sector, mismanagement and waste make it more difficult for an agency to serve its clients within its current budget -- giving the agency a strong case for increased subsidies.

Efficiency in the private sector derives from a third incentive. Private firms have bottom lines -- profit-and-loss statements -- that guide their day-to-day management decisions. Government agencies have nothing that compares to a bottom line. Profits are fictional or discouraged; the "use it or lose it" mentality pervades government agencies, particularly as the end of a fiscal year approaches. As government convention centers have demonstrated time and again, it doesn't hurt to run deficits; losses are bankrolled by the taxpayers.

Of course, none of these three mechanisms works perfectly in this imperfect world. Some businesses are poorly managed for years before they reform, are bought out, or go bankrupt. Moreover, all three mechanisms are present in the management of some government-owned convention centers to some degree. There is often competition among government-owned and private facilities. The fact that so many governments have built or are planning convention centers makes competition among facilities more intense every year. (Incidentally, increasing competition, coupled with the promise of subsidies to cover losses, means that government convention centers will be encouraged to cut fees for services to gain a competitive edge. As a result, they run up increasingly large operating losses that taxpayers will be required to finance in coming years.)

Incentives in the government sector. In a democracy, governments are said to have an additional incentive to provide efficient management of public assets. Government officials are ultimately responsible to the people and can be turned out of office if they do not pursue the people's interests. But elections tend to be fought on general issues, and it would be rare for mismanagement of a convention center to be an important factor in a political campaign. In addition, it is notoriously difficult to pin blame for mismanagement on particular officials. As a result, governments tend in large degree to be influenced by narrow interest groups, not by voters' interests. With convention centers, among the most important interest groups are their customers, their managers, and the unions that represent construction and operating workers.

Inefficiency in government benefits each of these special interest groups. Customers benefit by underpricing of service, government managers by increasing budgets, and unions by over-employment of workers, higher-than-market wages, and

favorable work rules. <26> Mismanagement may make for good newspaper copy and a story on the evening news, and an official occasionally may be fired <27> or even convicted, but mismanagement apparently tends to go on. Government watchdog agencies sometimes investigate notorious cases of bad management, but to no lasting effect. <28>

Convention center mismanagement will not be solved by tighter government controls or better government managers. The fundamental solution is to recognize that government agencies face distorted incentives, and thus must get out of the convention center business.

V. SUMMARY AND CONCLUDING REMARKS

Nothing in this report should be construed as opposition to convention centers themselves. The business has expanded rapidly and there is every reason to permit the private sector to supply the facilities on a competitive basis. But *there is no economic reason for governments to own convention centers*. There are many privately owned and managed convention centers -- some are part of hotels or motels and some are freestanding structures -- and there is a substantial business sector that can develop and manage them just as it develops and manages other commercial real estate.

Convention centers are naturally competitive and could be more competitive if governments did not intervene so much. The sponsors of large events, such as trade shows, consider holding their activities in one of many locations, and large convention centers are forced to compete with each other for the business. Small and medium-sized centers located in small cities and in the suburbs of large metropolitan areas compete intensively for small and local events. This competition, in the private sector, leads to greater efficiency and attention to customers' needs. But in the government sector, where profits are discouraged and losses subsidized, competition leads to ever-greater burdens on taxpayers.

As has been shown, convention centers produce economic benefits that cannot be captured completely by their owners, be they government agencies or private firms. But this makes convention centers no different from other businesses that produce goods and services for "export" outside the local community. The author has yet to see a

convincing demonstration that the private sector in a given community will fail to supply "enough" convention center space.

If they wish to encourage the increased private development of convention centers, the first thing that state and local governments should do is to declare moratoria on new government-owned or -financed convention centers. The city or state that does this will benefit even if other cities and states do not follow its lead. <29> At the same time, state and local governments should de-politicize the process of determining where, when, or by whom a new facility can be built. Any private developer able to attract sufficient financing and assemble the necessary land for the facility should be permitted to build. Private developers of convention centers should not be treated any better or worse than other private developers of large and important real estate projects.

The most difficult question is what to do with existing government-owned centers. To the extent that they are inefficiently managed, such government-owned facilities are worth more to an aggressive private owner than to taxpayers. In fact, since taxpayers will not even receive the return *of* their capital let alone a return *on* their capital, government-owned convention centers are presently worth nothing to taxpayers. Thus, any money that a government received from the sale of its convention center would be a net return to taxpayers. *Whatever indirect benefits the center may generate for the local economy would continue to be generated if the center were sold to a private owner.*

Selling existing government-owned centers to private investors may be time-consuming, since myriad legal, political, and economic issues would need resolution. Care would need to be taken that the sale was business-like and carried out to obtain the best return possible for taxpayers. Britain now has extensive experience selling public enterprises and assets to the private sector and could be studied for models and procedures that could be used here. Also, many of the nation's larger accounting firms now have departments that specialize in privatization and can be expected to have expertise in this kind of activity.

Convention centers should be owned and operated by private firms. There is no more justification for government ownership of convention facilities than there is for government ownership of the myriad other export businesses whose benefits extend beyond the local community. Popular belief and "multiplier theories" notwithstanding, governments cannot produce unique economic benefits that are not also produced by the private sector. In fact, because governments have few incentives to manage convention centers efficiently, *private* ownership and operation of these facilities is likely to produce far greater economic benefits for state and local taxpayers.

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ENDNOTES

1. According to *Successful Meetings* magazine, 43 cities are building convention centers or expanding existing facilities, adding 24 million square feet of space. Paul Braus, "Growing Pains," *Successful Meetings*, September 1990, page 91. On the East Coast alone, Philadelphia's new \$523 million center is scheduled to open in 1993 with 430,000 square feet of exhibit space, Baltimore is expanding its center, and Atlanta will increase its exhibit space to 1.4 million square feet by August 1992. Anne Swardson, "Convention Center: The Sequel; Calls for New Complex in D.C. Prompt Overexpansion Concerns," *The Washington Post*, July 2, 1990.
2. Steve Huntley, "Convention centers spark civic wars," *U.S. News & World Report*, February 10, 1986.
3. Results of a study conducted by Market Probe International, Inc., reported in Elissa Matulis Myers, "The Lion's Share of Meetings Business," *Association Management*, February 1989, page 35.
4. Laventhol & Horwath, *Executive Summary* of report, Table III-1, page III-7.
5. Anne Ballen, "Form and Function," *Association Management*, February 1989, page 53.
6. Jacob Weisberg, "Battle of the barns: Convention center fever," *The New Republic*, April 28, 1986.
7. See John McCarron and Dean Baquet, "McCormick Place fiasco," *Chicago Tribune*, July 21, 1985.
8. See, for example, Rob Karwath and Rick Pearson, "Daley, Edgar take a pass on McDome," *Chicago Tribune*, November 21, 1990.
9. Anne Swardson, "Convention Center: The Sequel; Calls for New Complex in D.C. Prompt Overexpansion Concerns," *The Washington Post*, July 2, 1990.
10. Capital costs, as just described, are incurred as the center is built. Annualized capital costs spread capital costs over the useful life of the center. Annualized capital costs include depreciation of the center, interest on debt incurred to finance the center, and foregone return that the owners of the center could have received had they invested their equity in the center in some other project.
11. Linda Paustian, "How Some Cities Get LOOTed," *The Wall Street Journal*, October 5, 1987.
12. Taxpayers' Federation of Illinois, "Illinois' civic centers program: Expansion continues beyond need," *Tax Facts*, Vol. 43, No. 6 (July 1990), page 4.
13. Steve Huntley, *supra* note 2.
14. Anne Swardson, *supra* note 1.
15. A similar assessment has been made of government-owned and -operated sports stadiums. In a study of 14 stadiums across the country, every municipally owned stadium was found to have generated a net loss of wealth to the host city's taxpayers. The stadiums were found to have an aggregate net accumulated value of *negative* \$139.3 million, indicating that the projects did not earn a return equal to similarly risky investments in other vehicles. The only stadium in the study to achieve a positive net accumulated value was privately built, owned, and operated Dodger Stadium. See Dean V. Baim, "Sports Stadiums as 'Wise Investments': An Evaluation," *Heartland Policy Study* No. 32 (Chicago, IL: The Heartland Institute, November 26, 1990).

16. To economists, "C" represents the "marginal propensity to consume." There is, of course, no reason to believe that consumers *always* will spend the same fraction of their additional income. Any time somebody in the expenditure chain simply pockets the additional income derived from the sale of goods or services, the multiple expansion of income and output comes to a screeching halt. Moreover, people differ with respect to their marginal propensities to consume, making the multiplier calculation all the less useful for public policy purposes.
17. In a report prepared for The Indianapolis Convention & Visitors Association, analysts used a multiplier of 2.2 in estimating the total economic impact of conventions in Indianapolis. See SMC Company and Business Economics Affiliates (Indiana University School of Business), "The Economic Impact of Conventions on Indianapolis - 1985" (Indianapolis, IN: Indianapolis Convention & Visitors Association, May 14, 1986). Laventhol & Horwath appear to have used an unusually high multiplier of 4.5 in their estimate of the indirect economic benefits expected to accrue to the State of Illinois from the construction of a convention center for the Greater Woodfield area. See Laventhol & Horwath, "Economic and Fiscal Impact Analysis for the Proposed Convention Center in Greater Woodfield, Illinois" (Schaumburg, IL: Schaumburg Metropolitan Exposition and Office Building Authority, July 14, 1989), Table C.
18. For example, Edgar K. Browning, of Texas A&M University, has estimated that the diversion of private resources to government use results in a *net social loss* of one dollar for every ten dollars diverted. Edgar K. Browning, "A Hidden Welfare Cost of Taxation," *National Tax Journal*, Volume 30, 1977, pages 88-90. A 10 percent loss may not appear at first glance to be significant, but the compound impact over a period of time can be staggering. A 10 percent difference in return on investment (for example, a 5 percent annual gain vs. a 5 percent annual loss) over a 20-year period yields a sevenfold difference in results. That is, a \$1 million investment could be turned into an asset valued at \$2.65 million or just \$.36 million. See John Semmens, "Government Business: A Capital Offense," *The Free Market*, July 1985, pages 3-4.
19. As noted earlier, government convention centers typically do not generate fees sufficient to cover operating costs, so tax dollars make up the shortfall. And, although government convention centers are typically financed at least in part by bonds issued for the purpose, interest and principal payments must be paid from tax revenues.
20. Some may question whether private spending has the same impact as government spending. In fact, the construction multiplier theory assumes this to be true. While the first "round" of spending may find a private individual spending a "government" dollar (say, a construction firm paid directly by a government agency), later "rounds" of spending -- assumed by the multiplier theory to have the same impact as the first -- are instances of private individuals spending "private" dollars.
21. This point is developed more fully in William Hunter, "Economic Impact Studies: Inaccurate, Misleading, and Unnecessary," *Heartland Policy Study No. 21* (Chicago, IL: The Heartland Institute, June 22, 1988).
22. Survey data on these issues are found in trade magazines: *Meetings & Conventions*, *Successful Meetings*, *Association Management*, and *Tradeshaw Week* among them.
23. Ibid.
24. See *Convention Centers, Stadiums and Arenas* (Washington, DC: Urban Land Institute, 1989) for multiplier values assumed in a sample of projects.
25. Available data do not allow for the calculation of hotel, restaurant, or liquor taxes paid by non-resident conventioners, so it is not possible to measure how successfully convention taxes have been exported, or even how much has been generated by them. However, the following exercise will fix magnitudes.

Assume, optimistically, that a large convention center attracts 200,000 attendees per year and that all are from outside the jurisdiction. Assume that each attendee spends \$500 in the community and that all \$500 is spent on goods and services subject to a 3 percent tax levied to help defray the center's costs. Total attendee spending is \$100 million per year (200,000 x

\$500) and total tax collections are \$3 million (\$100,000,000 x .03).

Assume that the center's total construction cost was \$500 million, financed by tax-free bonds at a 7 percent annual interest rate. The bond interest alone, ignoring principal payments, is \$35 million per year, over 10 times the amount raised by the tax.

26. Chicago's McCormick Place, for example, is notorious among trade show managers and convention-goers for the severity of its union work rules. Exhibitors complain of ". . . unreasonable demands by the electricians, carpenters, decorators and other unionized workers . . . [One] firm had to hire a union worker to move an eight-inch-high pedestal. Another exhibitor told of having to pay a member of the decorators' union an hour's wages to spend two minutes taking down cardboard signs that were put up with tape." Thomas M. Burton, "McCormick exhibitors vexed by thefts, unions," *Chicago Tribune*, September 9, 1985.
27. During the 1985 expansion of Chicago's McCormick Place, for example, "Cost overruns of \$60 million inflated the bill to \$312 million, required a bailout from the Illinois General Assembly, and forced firings of all 12 members of the facility's board of directors in November (1985)." Steve Huntley, *supra* note 2.
28. On the expansion of Chicago's McCormick Place in the mid-1980s, see *Metropolitan Fair and Exposition Authority Cost Overruns on Expansion Project* (Springfield, IL: State of Illinois Office of the Auditor General, September 1985).
29. The city or state would benefit in three ways. First, it would no longer be responsible for a loss-generating facility. Second, it would likely enjoy a slightly higher rate of economic growth than it would otherwise achieve, since it would avoid having to levy property or tourism-related taxes to subsidize the convention center. Lower taxes tend to lead to increased economic growth. See, for example, Joseph L. Bast and John Beck, "Taxes and Economic Growth," Chapter 2 of *Coming Out of the Ice: A Plan to Make the 1990s Illinois' Decade* (Chicago, IL: The Heartland Institute, 1990). Finally, the city or state would be a more attractive convention site, as private convention centers tend to be bound less by restrictive union work rules and thus have lower operating costs.