

# BUSINESS BLOG: BUSINESS TIPS FROM THE LION'S DEN



Story by Dr. Howard J. Wall

HALLOWEEN HAS JUST PASSED, so your lives have probably been full of fright over the past couple of weeks. But before you settle back into scare-free comfort, you should be warned that some of the most horrific of all creatures can appear at any time of the year. One such creature is a sort of half zombie/half pirate who flies into a community periodically, ravaging brains and pillaging treasures.

These ghoulish figures are unlike most others because their ravaging and pillaging is done with smiles, glossy handouts, and PowerPoint slides. They use these weapons to cast spells that make intelligent people hand over taxpayer money to millionaires or billionaires in exchange for sports stadiums, arenas, convention centers, hotels, and all manner of associated structures. I'm talking, of course, of consultants wielding "economic impact" studies showing how millions of dollars in tax breaks and handouts can be magically transformed into hundreds of millions of dollars worth of benefit to the community.

The scare quotes are needed when referring to these "economic impact" studies, because they usually do not measure actual economic impact, which is the net economic change resulting from a project. There are exceptions, of course, but a good rule of thumb is to think of these studies as nothing more than political documents meant to advance the economic causes of their sponsors. John Crompton, a professor at Texas A&M University, laments the misuse of economic-impact analysis for what he calls political shenanigans. An article he published in the *Journal of Travel Research* serves as a handy guide to help the unsuspecting citizen to recognize the most common abuses of logic and math:

- Counting spending by local residents as economic impact even though it is not new money to the area and is canceled out by reduced spending on other things.
- Using sales multipliers that count a dollar every time it is transacted, even though net income is not increased each time a dollar changes hands.
- Equating tax revenue as economic impact when it is nothing more than a diversion of money from the rest of the economy to local governments.
- Abusing employment multipliers even though most of the employees in the construction and operational phases of the project would have been employed somewhere else.
- Ignoring the opportunity cost of the resources, which could have been used for other projects.

It should be noted that economic impact studies can be done with integrity and be based on sound economics. Usually these are provided by independent analysts or academics, but they typically arrive at effects that are relatively modest when compared with those found in "economic impact" studies. As a consequence, worthwhile projects are ignored because our attention is diverted to bad projects that are pursued because of wild claims about their benefits.

One never knows exactly when hired-gun consultants will swoop into town to cast their spells, but they do seem to appear around the time that a professional sports team is interested in getting a new stadium. So be warned. They're coming to a town near you. And when they do, hang onto your wallets and keep hold of your common sense. ▫