A Touchdown for Subsidies

"Should Cities Be Ready for Some Football? Assessing the Social Benefits of Hosting an NFL Team" by Gerald A. Carlino and N. Edward Coulson, in *Business Review* (2nd qtr., 2004), Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, Pa. 19106.

It's become a familiar spectacle: Cities frantically compete for the favor of the National Football League (or the like) and offer to subsidize a stadium to attract a team. Do the benefits a city derives from having a professional sports team really outweigh the costs? Many analysts say no. But economists Carlino, of the Federal Reserve Bank of Philadelphia, and Coulson, of Pennsylvania State University, argue that an important factor is often overlooked: the pleasure city residents take in rooting for a home team, even if they never go to a game. "They root for the local athletes, look forward to reading about their success or failure in the newspaper, and share in the citywide joy when the home team wins a championship."

If people appreciate such things, they should be willing to pay for them, just as they pay for other "quality-of-life" benefits, such as scenic views or good weather. And that taste should be reflected in higher land prices and rents.

Carlino and Coulson looked at the record in eight cities that gained or lost NFL franchises during the 1990s. Holding other city traits constant, the economists calculated that having an NFL team raised annual rents for housing an average of eight percent. (All figures are in 1999 dollars.) That translates into about $480 a year per housing unit—or about $139 million in an average central city. In other words, people are willing to pay nearly $500 a year to live in a city with an NFL team.

As a result, the authors estimate, the host cities may each reap about $50 million annually in higher revenues from real estate taxes. Subsidies cost each city an average of only $27 million annually.

Still, Carlino and Coulson stop short of giving stadium subsidies their full endorsement. After all, spending millions on stadiums might mean not funding "possibly more worthy" projects, such as new schools.

Fighting for Health

"Redefining Competition in Health Care" by Michael E. Porter and Elizabeth Olmsted Teisberg, in *Harvard Business Review* (June 2004), 60 Harvard Way, Boston, Mass. 02163.

Is there any way out of the health-care mess? The costs to businesses alone of providing health insurance have outpaced inflation in 13 of the past 17 years, reaching more than $6,200 per employee last year, yet the system keeps failing to provide care to all Americans. When it comes to health care, the vaunted magic of the market appears not to work, but making health care a government monopoly hardly seems a better alternative. So what's the solution?

"The most fundamental and unrecognized problem in U.S. health care today is that competition operates at the wrong level," write Porter, a Harvard Business School professor, and Teisberg, a business professor at the University of Virginia. "It takes place at the level of health plans, networks, and hospital groups. It should occur in the prevention, diagnosis, and treatment of individual health conditions or co-occurring conditions." That's the level at which "true value is created—or destroyed."

Exacerbating the wrong-level competition is the pursuit of "the wrong objective: reducing cost," as if health care were a standardized commodity. Health plans compete to sign up subscribers. Health-care providers compete to be included in health plan networks by giving deep discounts to insurers and employers with large patient populations. They also compete to form the largest provider groups, offering the widest array of services. Instead of cost reduction, what occurs is cost shifting. And instead of providing better quality care, the object becomes securing greater bargaining power and restricting access to services.

In the "healthy" competition the authors envision, providers would try to develop dis-