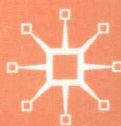


Robert Sandy, Peter J. Sloane,
Mark S. Rosentraub

The Economics of Sport

An International Perspective



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Robert Sandy

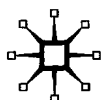
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Preface

Although the economics of sports is a relatively small field in terms of courses offered, there are now at least three other textbooks on the economics of sports, all published between 2000 and 2003 (Downward and Dawson, 2000; Fort, 2003; Leeds and Von Allmen, 2002). This spurt of new books in a field that until recently had no textbooks raises two questions: why did these books come out at about the same time and why are we offering a competitor? The main reason for these new books is a burgeoning interest in the economics of sports on the part of economists, public officials, lawyers, business leaders and students. The sports pages of newspapers now constantly have articles about public subsidies for new stadiums, labor/management disputes, record-setting payments for players, billion-dollar contracts for broadcast rights, and the merging of sports teams into entertainment businesses. Legal and regulatory decisions and new laws such as the EU Bosman decision, the US Congress Curt Flood Law, and the UK Monopolies and Mergers Commission BSKyB/Manchester United ruling are reshaping the market for sports. At the same time that news stories brought these issues to students' attention, economists have made rapid progress in analyzing these markets. There is a new *Journal of Sports Economics* and over a thousand articles on the economics of sports.

From a pedagogical perspective, the economics of sports is a wonderful subject. For example, a season ticket is really a complex financial contract with uncertainty over the quality of the team, the value of ticket renewal rights, and the option to purchase post-season tickets. The effects of monopoly power to raise ticket prices, to keep down the number of teams, to force municipalities to subsidize stadiums, and to convince Congress to legislate exemptions from the antitrust laws are all compelling topics. What economists have concluded about the development effects of local professional sports teams and the intangible benefits is largely, if not completely, at variance with public perceptions. What other industry has precise data for measuring worker productivity and assessing all the possible sources of discrimination?

Sports economics provides an excellent framework for discussing standard economic topics such as marginal revenue applied to ticket pricing, capital asset pricing as applied to the selling prices of sports franchises, cartel behavior as applied to the National Collegiate Athletic Association (NCAA) and the

major sports leagues of North America. We think the economics of sports will become as popular an upper-level economics course as more traditional subjects such as labor economics or money and banking courses. No economics or public policy instructor who teaches the economics of sports need be embarrassed about teaching a 'lightweight' course. Properly designed, an economics of sports course would be a valuable addition to the undergraduate economics curriculum.

The second question is, why are we offering another book? This book differs in three respects. First, it is intended to be the most comprehensive. Second, it is more rigorous. This textbook builds on a foundation of introductory microeconomics and carries much of its discussion at the level of an intermediate microeconomics textbook. There are some calculus examples and exercises and optional sections where the material suits that treatment. The calculus-based exercises are identified. Third and most distinctively, this book takes a truly comparative approach. The ability to compare different institutional settings illuminates the economic concepts. For example, what are the consequences of the European promotion/relegation system versus the North American system of having teams with permanent major league status? Why does the USA have a gigantic collegiate sports system while the commercial potential of collegiate sports elsewhere remains unexploited? Why are sports broadcast rights in Europe so much lower than in the USA?

Professional sports are undergoing a rapid transformation towards globalization. There may also be a trend toward domination by broadcast/entertainment conglomerates such as Rupert Murdoch's Fox and Sky networks. The pace of fundamental changes will keep professional sports in the daily headlines. New leagues are being formed with different business models such as league-wide ownership of the teams. A 'super league' of top football (soccer) clubs is under discussion in Europe. Soccer is trying again to made headway in the North American market and the National Basketball Association (NBA) and the National Football League (NFL) are marketing their games in Europe. Protracted strikes have cost the players and the team owners billions of dollars in North America. As the total profits from sports broadcasts and team ownership rise, there will be pressure for such strikes to spread to Europe as well. A textbook with an international perspective, focusing primarily on the USA, Canada, Europe and Australia, is the only way to explain these changes in coherent manner and show the common issues across countries.

Note: Words in **bold** in the text can be found in the Glossary at the end of the book.

List of abbreviations

ABA	American Basketball Association
AFL	American Football League
AIAW	Association of Intercollegiate Athletics for Women
AP	Associated Press
BEA	Bureau of Economic Analysis
DGR	defined gross revenue
FA	Football Association
FIFA	La Federation Internationale de Football Associations
IFC	Independent Football Commission
IOC	International Olympics Committee
ITC	Independent Television Commission
IUPUI	Indiana University-Purdue University Indianapolis
LPGA	Ladies Professional Golfers Association
MIT	Massachusetts Institute of Technology
MLB	Major League Baseball
MLS	Major League Soccer
MMC	Monopolies and Mergers Commission
MRP	marginal revenue product
NAIA	National Association of Intercollegiate Athletics
NASCAR	North American Stock Car Racing Association
NBA	National Basketball Association
NCAA	National Collegiate Athletic Association
NFL	National Football League
NIT	National Invitational Tournament
NLSY	National Longitudinal Survey of Youth
OFT	Office of Fair Trading
OPEC	Organization of Petroleum-Exporting Countries
PGA	Professional Golfers Association
PL	Premier League
PPV	pay-per-view
PSL	personal seat license
SAT	Standard Assessment Tests
UEFA	Union of European Football Associations

USFL	United States Football League
WHA	World Hockey Association
WNBA	Women's National Basketball Association
WNSL	Wembley National Stadium Ltd
XFL	World Wrestling Federation's Football League (US)

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Introduction

Why study the economics of professional sports? Why study the economics of the revenue-generating amateur sports such as the Olympics and intercollegiate sports in the USA? The answer 'Because these sports represent a substantial share of the gross national product' is simply wrong. The spectator sports industry for both professional and amateur sports is a trivial component of all national economies. In the USA its revenues are dwarfed by mundane industries such as meatpacking. The total revenue in professional sports is about 12 per cent of the total revenue in meatpacking. Two correct answers to the question are that the sports industry raises fascinating economic questions and that sports have been a high-profile component of all societies for more than 4,000 years. The Greeks and the Romans made sport a central part of their society. They built their cities with sports facilities as the centerpieces. Mayan civilization in Central America also emphasized sport. The public enthusiasm for spectator sports continues unabated in modern times. There are courses in the economics of sports rather than the economics of meatpacking because sport is a rich area for economic analysis and because societies care a great deal about sports. Beginning in the 1950s, economists have published hundreds of papers on the sports industry. The economics of sport is now a significant branch of economics.

What makes the economics of sports especially intriguing? Professional teams are usually local monopolies which have exemptions from the **antitrust** statutes (competition policies in the UK) that apply to other businesses. One interesting question is how their monopoly status affects their interactions with their players. If the meatpacking companies got together and agreed never to hire a worker who was working for another meatpacker, they would be in serious legal trouble. Until recently athletes were tied to one team that could sell their contracts to another team or keep renewing the contracts indefinitely. This exclusivity was called the **reserve clause** in US baseball. The equivalent restriction on labor mobility in European soccer was called the **retain and transfer system**. In the USA, sports reserve clauses were eliminated through a series of contract negotiations with the players' unions. Management was under pressure because both sides were increasingly convinced that the reserve clause would be ended by court rulings. In Europe the **Bosman** case suddenly ended the retain and transfer system. Some elements of monopoly power over sports labor still remain. All of the US professional leagues have annual drafts of new players (see **player draft**). They agree not to make offers to players drafted by other teams. In Europe there is no parallel to the US draft of what are primarily college athletes.

Teams are also generally monopolies in their product markets. In the USA they have exclusive territorial rights. Teams that are members of the same league cannot enter their market without their approval. The largest cities in the USA have two professional teams in the same sport but beyond those exceptions there is one team per sport per city. The Los Angeles, New York