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Organizational Differences between U.S. Major Leagues and European Leagues: Implications for Salary Caps

Helmut Dietl[†], Egon Franck[††], Markus Lang[†††] and Alexander Rathke[††††],

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Abstract

This paper outlines and compares the organizational structure of major sports leagues, explores the reasoning behind their formation, and derives implications for salary caps in European football. To understand why sports leagues have developed a specific organizational structure, one must take the economic peculiarities of team sports leagues into consideration. For this purpose, we analyze the production process and illuminate its major peculiarities. For example, we present the difference between economic competition and competition on the pitch and discuss the consequences of this distinction for an attractive final product. Furthermore, we show that a hold-up problem exists between the two stages of the production process and demonstrate how these problems are overcome by the organizational structure chosen by sports leagues. We also outline the differences between the U.S. major leagues and European leagues and document recent developments in that context. Finally, based on this comparative

[†]Institute for Strategy and Business Economics, University of Zurich, Plattenstrasse 14 CH-8032 Zurich, Switzerland, Phone: +41 (0) 44 634 53 11, Fax: +41 (0) 44 634 53 01, helmut.dietl@isu.uzh.ch

[††]Institute for Strategy and Business Economics, University of Zurich, Plattenstrasse 14 CH-8032 Zurich, Switzerland, Phone: +41 (0) 44 634 28 45, Fax: +41 (0) 44 634 43 48, egon.franci@isu.uzh.ch

[†††]Institute for Strategy and Business Economics, University of Zurich, Plattenstrasse 14 CH-8032 Zurich, Switzerland, Phone: +41 (0) 44 634 53 17, Fax: +41 (0) 44 634 53 01, markus.lang@isu.uzh.ch

[††††]Institute for Empirical Research in Economics, University of Zurich, Plattenstrasse 14 CH-8032 Zurich, Switzerland, Phone +41 (0)44 634 35 69, Fax +41 (0)44 634 35 99, rathke@iew.unizh.ch

institutional analysis, we derive implications for the introduction of salary caps into European football.

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1. Introduction

The purpose of this chapter is to outline and compare the organizational structure of major sports leagues, explore the reasoning behind their formation, and derive implications for salary caps in European football. To understand why sports leagues have developed a specific organizational structure, we must take the economic peculiarities of team sports leagues into consideration. For this purpose, we analyze the production process and illuminate its major peculiarities. For example, we present the difference between economic competition and competition on the pitch and discuss the consequences of this distinction for an attractive final product. Furthermore, we show that a hold-up problem exists between the two stages of the production process and demonstrate how these problems are overcome by the organizational structure chosen by sports leagues. We also outline the differences between the U.S. major leagues and European leagues and document recent developments in that context. Finally, based on this comparative institutional analysis, we derive implications for the introduction of salary caps into European football.

2. Organizational Structure of Sports Leagues[1]

2.1 Two-Stage Production Process

To understand why major sports leagues have developed a specific organizational structure, it is first necessary to analyze the production process. Professional sports clubs mainly derive their revenues from five sources. Match-day revenue and broadcasting rights combined account for one-half to three-fourths of total league revenue, and the rest comprises merchandizing, advertising and sponsoring revenue (Deloitte, 2004). At first glance, any single game and the attention generated by it seem relevant for match-day and broadcasting revenue. However, when comparing revenues from exhibition games to those from championship games, one begins to see that the value of the latter significantly exceeds that of the former. The value of any game depends on the strength of the participating teams. However, the relevance of the game for the championship contributes more significantly to the game's value.

Seen from this viewpoint, value creation in professional team sports occurs in two distinct stages. In the first stage, at the level of individual clubs, club owners invest in developing the playing strength of their respective teams. The problem, however, is that no single team is able to produce a marketable product. To do so, a team needs at least one opponent. The value of the resulting games can then be increased significantly if those games are integrated into a

[1] This section is based on Franck (2003) and Dietl, Franck, Hasan, and Lang (2009).

championship race. Thus, in the second stage of the production process, the league stage, single games act as inputs for the production of the final meta-product, the championship itself.[2]

2.2 Economic vs. Sportive Competition

This multi-stage production process is characterized by some economic peculiarities. First, a distinction must be made between economic competition and competition on the field. In sports, any team will try to dominate its opponents and maximize its percentage of wins. From a league-wide economic perspective, however, the attractiveness of the championship might be increasing in the balance of the competition (competitive balance). Thus, on aggregate, the absence of single teams dominating the championship is economically preferable. This phenomenon exists in stark contrast to the notion of economic competition, where the goal of any competitor is to attain monopoly status to maximize profits.

With regard to competition in sports, scholars such as Rottenberg (1956) and Neale (1964) recognized early on that an on-pitch monopoly on the part of any single team would lower the team's profits as the championship became unattractive and demand subsequently decreased. According to the so-called "uncertainty of outcome hypothesis," fans prefer to attend games with an uncertain outcome and enjoy close championship races.[3] Thus, to produce a valuable product, it is necessary for a team to have powerful rivals and belong to a league that coordinates championships.

2.3 League Monopoly, Hold-Up Problem and Vertical Integration

Another peculiarity of professional sports production is that, by definition, any championship must possess monopoly status. The validity of a championship rests primarily on such monopoly status. If there are several championships per market area and sport, no consistent ranking of all performers is achieved and, hence, the championship will lose a significant part of its value for consumers. A brief look at the history of major league sports shows that the periods of inter-league competition have been rather short and, in cases when a contender has succeeded at all in seriously challenging the established league, have ended in mergers (Quirk and Fort, 1992). In European soccer, this uniqueness of national championships is additionally

[2] In some leagues, such as the European soccer leagues, there exists a third stage in which the product of the second stage, the national champions, becomes input for a higher-order championship: the UEFA Champions League. Fort (2003) argues that this is similar to MLB (NFL), where the American and National League (Conference) are also separate entities overseen by the MLB (NFL), each crowning an overall champion.

[3] See Downward and Dawson (2000), Borland and MacDonald (2003), and Szymanski (2003) and Lenten (2008, 2009) for contributions that analyze the relation between competitive balance and match attendance.

enforced on a formal basis by the European Football Association (UEFA)'s lack of approval for any national league not licensed by its respective national soccer federation.

The compulsory monopoly status of major leagues has important implications for the participating clubs. The investments of club owners in their teams are specific in the sense that they cannot be transferred to alternative, equally profitable endeavors. No individual club owner has an economically viable option for exit from a monopolistic major league other than shutting down and selling the team. Therefore, whenever clubs and the league coordinate their relationships via contracts, a hold-up risk arises (Klein, Crawford and Alchian, 1978). Having made investments in their teams, club owners cannot redirect their investments into other businesses without losing a significant part of their value, and they are thus forced to accept whichever conditions the league's governing body offers.

Therefore, a solution is required that preserves monopolistic league status and, at the same time, safeguards specific investments in team development. Vertical integration between the two levels of production is the standard governance prescription when specific investments are involved (Klein, Crawford and Alchian, 1978; Williamson, 1979).

If the league were organized as a classical firm, both relevant steps of the value chain would occur under unified ownership. In such a setting, the hold-up risk loses its relevance because it is the league owner who invests in the development of his different subsidiary teams. However, the classical firm as a form of vertical integration between the two steps in the value chain cannot serve as a role model for major league sports because this is in conflict with the requirement of securing the integrity of the championship race.[4]

Therefore, an alternative form of vertical integration is required, namely, one that preserves individual incentives to compete. From a value chain perspective, this alternative can be described as a form of forward integration from the level of team-development into championship production, whereas the introduction of a league owner can be seen as backward integration from the level of championship production into team development.

[4] Major League Soccer (MLS) employs a firm-like structure with pooled ownership discussed as a manifestation of the "single entity league" model in the literature (Abbott, 2001). For example, the league owns all of the players' contracts in this structure and controls the allocation of players within the league. This allows for the centralized allocation of talent (and other resources), which limits bidding opportunities for player services and in the end leads to significant cost control benefits. However, none of the four genuine major leagues in North America and no European major leagues employ this concept. If a true and fair contest is a key element of the product sold in this industry, the cost control advantages of "single entity leagues" come at a high price. This (among many other things) may contribute to the fact that MLS is still minor as compared to European soccer or the other North American major leagues.

2.4 Organizational Structure of U.S. Major Leagues and European Leagues

The organizational structure suited to handling both of the problems discussed above is the cooperative association of team owners. It enables the required forward integration of every single team owner into championship production by granting him representation in all relevant decisions at the league level. In the U.S. major leagues, all strategic questions of league-wide relevance are decided by majority voting. The only associates entitled to vote are the participating club owners. As a result, there is no room in this structure for a third party who is in control of the second level of production and who may hold up team owners. Every team owner is systematically compensated by "voice" for the lack of "exit" (Hirschman, 1970). At the same time, team owners retain their status as independent producers at the level of team development. This means that the individual incentives to compete in the championship remain stronger than they are within the boundaries of a single firm. Moreover, there is no room for a central league owner who might strategically plan outcomes.

This institutional innovation was realized by the foundation of baseball's National League in 1876 and has since represented the single most robust element of organization in professional team sports. Other U.S. major leagues have quickly adopted this transformation as well.[5]

In contrast, European team sports leagues were historically run by their respective national and international associations, and they were legally independent from the professional clubs playing in these leagues. The nature of the relationship was best described as one of contractual governance between vertically separated entities. Under such circumstances of contractual governance, the league essentially acted as an intermediary for individual clubs' products.[6] In the last few years, however, European soccer leagues have adopted a cooperative model and transformed into organizations that resemble their North American counterparts.[7]

In Germany, for example, in the year 2000, the 36 clubs in the first and second division of the German national soccer league (Bundesliga) founded the so-called "Ligaverband" (league association). The German soccer federation DFB (Deutscher Fußball-Bund) exclusively ceded

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[5] C.f. Szymanski and Ross (2007).

[6] Similar situations are still observed in individual sports, where single athletes and tournament organizers negotiate contracts regulating the athletes' participation. Also, the Formula One (F1) motor racing league is an example of such a situation. The manufacturers that finance the racing teams and F1 management are by and large independent and regularly negotiate contract parameters, especially the distribution of rents.

[7] Based on a comparative institutional analysis, Dietl, Franck, Hasan, Lang (2009) explain the advantages of the cooperative form of league organization over contractual governance. They show how the forward integration of clubs into the stage of championship production increases league productivity relative to contractual interaction between clubs and the league.

the rights to stage the Bundesliga championship to the league association. The latter then created the German soccer league DFL (Deutsche Fußball Liga GmbH), of which the league association is the sole partner. The DFL is responsible for the operations of the league association and manages the implementation of its decisions. In particular, the DFL supervises league play and markets the first and second division exclusively. Thus, until 2000, league operations in Germany were fully conducted by the soccer federation DFB, which is also responsible for the administration of amateur and women's soccer. Only from 2000 onwards did professional soccer clubs begin to organize and market their championships with a high degree of independence from the national federation DFB.

In contrast to its German counterpart, the English Premier League (officially named Barclays Premier League) has had a somewhat longer tradition of independence from the English Football Association, going back to the year 1992, when the teams of the first division founded the "FA Premier League". Today, the Premier League is owned by 20 shareholders, the member clubs. Membership is dependent on sporting performance, and relegated clubs are required to transfer their ordinary share to the promoted clubs at the end of every season. Each shareholder is entitled to one vote, and all rule changes and major commercial contracts require the support of two thirds of the clubs voting at a general meeting.

The French "Ligue de Football Professionnel" is the last step in a rather long chain of attempts to increase the independence of professional football from the Fédération Française de Football. The clubs' first attempt to create their own organization employing professional players dates back to the year 1932, when an association called "l'Amicale des clubs amateurs utilisant des joueurs professionals" was registered. The Fédération repeatedly voted against secession, and the association therefore remained a hollow shell. Many stages of development ("Groupement des clubs autorisés", the "Ligue nationale de football") had to take place before the creation of the " Ligue de Football Professionnel" in the last decade. The new organization is a registered association that includes all of the French clubs playing in the two top-flight competitions, Ligue 1 and Ligue 2, which are comparable to their German counterpart Ligaverband.

The Italian "Lega Nazionale Professionisti", better known as "Lega Calcio", and the Spanish "Liga Nacional de Futbol Profesional", better known as "La Liga", are the result of similar attempts by professional football clubs to gain independence from their respective national associations and take over the governance of their affairs. Both are legally independent units, and both are cooperatives of the clubs playing in professional football.[8]

By adopting a cooperative form of governance at the league level, the professional European clubs thus followed a course of development that North American professional sports leagues had pioneered long ago. In contrast to their American counterparts, football leagues in Europe, however, are embedded in association structures. Every national football association governs a system of leagues that is open through promotion and relegation from the amateur level to the top national division of professional football. At the top of the national league pyramid, the UEFA, an association of national associations, organizes European club competitions like the Champions League and the Europa League for the teams that meet certain criteria.

The championships administered by these supranational organizations have a rather contractual relationship with the clubs and therefore may induce the establishment of rent-seeking endeavors, as with the G-14, a small fraction of European football clubs established as an interest group of 18 prominent clubs of European football. The UEFA has reacted to the G-14 by giving the clubs participating in European club competitions a say in the governance of the latter. In January 2008, the European Club Association (ECA) was formed. It consists of 103 members, with at least one from each of the 53 national associations, and has formal representation within the UEFA governance structure—for example, in providing half of the members of the UEFA Club Competitions Committee. The creation of the ECA was linked to the dissolution of the G-14. This development can also be interpreted as a move away from contractual governance towards a more cooperative form of league governance.

Finally, another important difference between the U.S. major leagues and the European leagues is that, in many European countries, a majority of football clubs are still members' clubs in the classical sense. This implies that clubs in Europe focus on maximizing their winning percentage, while clubs in the U.S. work to maximize profits. Legally, clubs like FC Barcelona, Real Madrid, and FC Bayern München, all of them winners of the Champions League, are registered associations that are democratically governed by their members. In the absence of residual claimants, profit maximization as a club goal does not make sense. Even

[8] Not only have the European soccer leagues moved in the North American direction, but also, the European basketball and handball leagues have done the same. Consider, e.g., the German basketball federation DBB (Deutscher Basketball Bund), which exclusively ceded the rights to stage the Basketball Bundesliga championship to the Basketball Bundesliga GmbH (BBL GmbH) in 1994. The equity holders of the BBL are the clubs playing in the championship (74% of shares) and the federation (26% of shares). In contrast, the Toyota German Handball Bundesliga was developed as a perfect blueprint of the German football institutions. After the clubs competing in the Bundesliga formed the cooperative association Ligaverband, the latter outsourced its day-to-day operations to the HBL Handball-Bundesliga GmbH.

in the case of English football, where the flagship clubs are organized as firms, the assumption of profit maximization at the club level seems far-fetched because wealthy investors like Chelsea's Roman Abramovich have acted as sponsors in the past, spending rather than earning significant amounts of money. Consequently, in the sports economics literature, European clubs are treated as win maximizers and not as profit maximizers:

> "The most important difference between the USA and Europe is that American clubs are business-type companies seeking to make profits, whereas the only aim of most European clubs so far is to be successful on the field." (Késenne and Jeanrenaud, 1999).[9]

Recently, Garcia and Szymanski (2009) provided statistical evidence that the behavior of football clubs in the Spanish and English leagues is better approximated by win maximization (subject to zero profit budget constraints) than by profit maximization.

In the next section, we outline the consequences of the association-governed football pyramid for the introduction of salary caps into European football.

3. Implications for Salary Caps in Europe[10]

3.1 Salary Caps in the Major Leagues

A competitive imbalance, resulting in uninteresting games and skyrocketing player salaries, plays a dominant role in the list of dangers cited in all attempts to regulate professional team sports since the introduction of the first professional leagues in the USA. Throughout their history, American professional team sports have employed a wide array of regulations to safeguard against this danger. Reserve clauses limiting the free agency of players, the reverse-order rookie draft and revenue sharing arrangements are well-known examples in this context.[11] Another prominent policy tool used in the struggle for cost control and the promotion of competitive balance is salary caps.[12]

In contrast to earlier regulations imposed by team owners on players, salary caps are now an integral part of the system of labor relations in the U.S. major leagues. The maximum (and sometimes minimum) amount of league revenue that should be devoted to player salaries is negotiated between the players' unions and the team owners and is fixed in so-called

[9] C.f. Sloane (1971), Cairns, Jennett, and Sloane (1986), Késenne (2000b, 2006), Zimbalist (2003), Fort and Quirk (2004) and Vrooman (2007).
[10] This section is based on Dietl, Franck, Lang and Rathke (2009).
[11] For contributions that analyze the effect of revenue-sharing arrangements, see, e.g., Fort and Quirk (1995), Vrooman (1995), Szymanski and Késenne (2004), Dietl and Lang (2008), Dietl, Lang and Werner (2009) and Grossmann, Dietl and Lang (2010).
[12] C.f. Késenne (2000, 2003), Dietl, Lang and Rathke (2009, 2010) and Dietl, Franck, Lang and Rathke (2009) for theoretical analyses of salary caps.

Collective Bargaining Agreements (CBAs).[13] Therefore, salary caps are not subject to anti-trust actions in the way that earlier regulations affecting the player market used to be.

Salary caps were unnecessary in the era of the reserve clause because players could not negotiate with another club without the permission of the current club, but this changed after the abolition of the reserve clause.[14] With the introduction of free agency into almost every professional sports league, "bidding wars" for the best players have been commonly observed. This situation led to an explosion in player salaries and gave the advantage to the more affluent large-market clubs, which were able to poach talent away from their poor competitors. To limit the danger that all highly talented players would end up playing for rich clubs, which would deteriorate competitive balance, salary caps were instituted; they were viewed as a countermeasure against free agency.

In the 1984-85 season, the North American National Basketball Association (NBA) became the first professional sports league to introduce a salary cap, allowing 53% of league revenues to be spent on player salaries. This translated into a maximum payroll of US$ 3.6 million for each team. Today, the NBA's salary cap is a so-called "soft cap", meaning that there are several exceptions that allow teams to exceed the salary cap to sign players. These exceptions are mainly designed to enable teams to retain popular players. For the 2008-09 season, the (soft) salary cap was fixed at US$ 58.7 million. At this time, all four American major team sports leagues have some variant of a salary cap mechanism. The National Hockey League (NHL) operates with a salary cap system such that each team had to spend less than US$ 50.3 million on player salaries in the 2007-08 season. In the National Football League (NFL), the salary cap in 2008 was approximately US$ 116 million per team. Major League Baseball (MLB) claims not to have a salary cap so far. However, Major League Baseball has a luxury tax mechanism that requires the definition of a threshold for the application of the tax.[15]

3.2 Salary Caps in the European Leagues

Though European club football has achieved a level of economic and financial potential comparable to that of the U.S. major leagues in the last decade, it has not followed the example of introducing salary cap mechanisms so far. Presumably, this reluctance is not due

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[13] Note that this kind of labor dispute entails strikes and lookouts, potentially resulting in the loss of part of or an entire season, as occurred in 2004-05 in the NHL (see Staudohar, 1988, 1990, 1997, 2005 for details).

[14] The reserve clause was introduced in baseball in 1887 and gave club owners an exclusive option to unilaterally renew the annual contracts of their players, binding them to their clubs until release, retirement or trade. As a result, a player could be tied to a club for the duration of his career by a series of annual renewals. The reserve clause was finally removed in favor of 'free agency' in 1976.

[15] For theoretical analyses of luxury taxes, see Marburger (1997) and Dietl, Lang and Werner (2010).

to ignorance of the dangers of competitive imbalance and financial instability in European football. Rather, the contrary seems to be the case. The recently published *Independent European Sports Review* (Arnaut, 2006), an expert report based on a process of intensive consultation with the most important stakeholder groups in European football, leaves no doubt about the general perception that competitive balance in European club football is declining and that a large number of clubs have stumbled into massive financial crises and are accumulating ever-increasing debt.[16]

Examples of this financial crisis spreading throughout the European football leagues are numerous. In Spain's Primera Division, the total amount of debt in 2008 amounted to €3.2 billion. Of the top 40 teams, 8 sought protection from creditors to stave off bankruptcy in the last two seasons. In particular, FC Valencia is seriously in debt, with €502 million. In England, the 20 Premier League clubs actually owe a total of €2.5 billion in bank overdrafts, loans and other borrowing; Manchester United and Chelsea are the most indebted clubs, each owing about €810 million (Deloitte and Touche, 2009). In Italy, the Serie A clubs accumulated total losses of €1.2 billion in the period from 1995/96 up to 2002/03, with 84% of these losses sustained during the period 2000/01-2002/03 (Deloitte and Touche, 2004, 2009).

Among the reasons for European club football's past failure to introduce a salary cap are the organizational differences discussed earlier. Obviously, the labor relations approach employed by the hermetic American major leagues is not feasible within the European, association-governed football pyramid. Football associations cannot be compared with the team owners in an American major league, which represent the demand side of the respective labor market. Instead, associations are conceived of as democratic governing bodies that aim to integrate all important stakeholders of football in a certain geographic region, including the players and, of course, the representatives of amateur football. At the European level, the different political and market conditions of every football nation create additional stakeholder diversity. It follows that decision-making processes concerning the introduction of salary caps will be much more complicated in the European, association-governed football pyramid because the interests of various stakeholders need to be properly balanced.

In particular, this European stakeholder diversity leads to the following specific characteristics. First, a salary cap system must take into account the significant market heterogeneity within the European football pyramid. The American system of an absolute capped salary amount for all clubs covered by the CBA will not work in the European football pyramid because, for example, a typical Belgian first division club will earn approximately

[16] Owing to their structure, professional team sports carry the risks that clubs will over-invest in playing talent. See Dietl, Franck and Lang (2008b) for a formal analysis of this overinvestment problem.

13% of the revenues of the typical English Premiership club. Because the cost of administering a specific absolute cap for every league in the European football pyramid would be prohibitive, the only workable solution in the European context seems to be a percentage-of-revenue cap. Unsurprisingly, all discussions among the stakeholders of European football focus on this relative capping strategy.

Based on consultations with important stakeholder groups in European football, the *Independent European Sports Review* refers to the same relative capping strategy:

> "The European Professional Football Leagues also consider that a salary cost control system should be further examined, as a possible tool to bring both financial stability to football and help to maintain and improve competitive balance in the sport. [..] A common feature of cost control systems is to stipulate a given percentage of club revenues which may be spent on player salaries." (Arnaut, 2006)

Second, as already mentioned, the hermetic American major leagues operating independently of association structures implemented salary caps as an integral part of a labor relations approach. The player's union and the owners represent the two sides of the relevant labor market, and the state accepts the outcome of their bargaining as written down in CBAs. This labor market model is not compatible with the European association model. Associations do not represent one side of a labor market.

Instead, they are sports-governing bodies. Representing all of the important stakeholders in sports, they perform regulatory functions normally reserved for the state. For historical and cultural reasons, European states have left the regulation of sports, to a more or less substantial extent, to the sports governing bodies. This self-regulation of sports is seen as an important expression of European civil society (Arnaut, 2006). However, the scope for autonomous regulatory activity by the sports governing bodies is by no means unlimited. Recently, the application of EU law has introduced a dynamic in which the sports-governing bodies have found it increasingly difficult to judge whether they are acting in accordance with EU law. The Bosman ruling of the EU Court of Justice provides the most prominent example of a regulation that was issued by the football associations (the player transfer system) but was then found to violate EU law—in particular, the principle of freedom of movement in the labor market.[17]

[17] In its famous verdict, the European Court of Justice abolished the existing transfer system and the so-called 3+2 Rule, which limited the number of foreign players that a club could field. For contributions analyzing the implications of the Bosman ruling, see, e.g., Simmons (1997), Feess and Muehlheusser (2003), Frick (2007, 2009), Dietl, Franck and Lang (2008a), and Lang, Rathke and Runkel (2010).

In this context, it is a priori unclear if a salary cap mechanism in European football falls under the margin of discretion granted by the state authorities to the sport associations as necessary for them to perform their duties. As the previous interference of EU institutions in the regulatory activities of sports associations shows, the football governing bodies will have to prove that their proposal of a salary control system is doing more than just, for example, improving the financial situation of clubs. It is well recognized that sound club financials play an important role in preventing incomplete seasons and maintaining the integrity of football. Clubs operating on the verge of bankruptcy are more inclined to engage in illegal practices, such as money laundering, match-fixing and tax fraud, which harm the image of the whole industry. However, the history of intervention shows that EU institutions will assess a salary control system from a much broader social welfare perspective, a perspective that is not restricted to the improvement of financial stability alone but that, rather, simultaneously aims to secure the fair treatment of players and consumers.[18]

4. Conclusion

The peculiarities of team sports industries imply that the production process involves two distinct steps. First, teams are assembled on the individual firm level; then, they are deployed in the production of a championship race. Maximizing sporting success, however, does not necessarily imply economic success. Indeed, an attractive championship can only be produced when enough potent contenders are available.

In addition, because championships are monopolies by definition, team owners face the problem of specific investments. Vertical integration, the remedy usually prescribed for this problem, is not suitable because it would harm the perceived integrity of the sporting competition.

The organizational innovation that can combat these problems is the formation of cooperative associations of team owners. Specific investments are protected by transferring control over the second stage of production to the team owners, keeping incentives to compete unharmed. While this form of cooperative organization has long been established in the North American major leagues, recent developments in the professional European leagues can be seen as a progressive move away from the prevalent contractual approach towards cooperative league governance. Regardless of the efforts made to emulate the North American leagues, the

[18] Dietl, Franck, Lang, Rathke (2009) analyze the welfare implications of a percentage-of-revenue salary cap in a team sports league with win-maximizing clubs, a setup closely resembling the European one. They show that salary caps can be welfare-increasing. In any case, a salary cap allows the clubs to make a profit, which contributes to financial stability. Allowing for the possibility that the league governing body cares disproportionately about club surplus strengthens the case for the implementation of such caps.

organizational structure of football leagues in Europe differs substantially from that of their North American counterparts because all leagues are embedded in association structures. Every national football association governs a system of leagues that is open through promotion and relegation. In addition, clubs are organized as members' clubs, implying win- rather than profit-maximizing behavior.

Organizational differences have implications for the introduction of salary caps, a policy tool common in North American leagues. In the hermetic American major leagues, player's unions and owners represent the two sides of the relevant labor market, and salary caps are the outcome of collective bargaining agreements. Although the problems of spiraling player salaries and unhealthy competitive imbalance are well-known dangers in European football, the wisdom of introducing salary caps is currently being debated. The decision-making processes concerning the introduction of salary caps are much more complicated in the European association-governed football pyramid. In this decision-making process, the significant diversity within the European football pyramid has to be taken into account, making a percentage-of-revenue cap perhaps more appropriate. Moreover, the closed U.S. labor market model is not applicable which begs the question: To what extent would the introduction of salary caps fall under the range of discretion granted to the sport associations by the national authorities, and would such an endeavor be in accordance with EU regulations?

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