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Inter-league competition for talent vs. competitive balance

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Abstract

We analyze the distribution of broadcasting revenues by sports leagues. We show that when the teams engage in competitive bidding to attract talent in an isolated league, the league's optimal choice is full revenue sharing (resulting in full competitive balance). In contrast, when the teams of several leagues bid for talent, in equilibrium the leagues choose a performance-based reward scheme. We thus provide an explanation for the differences in revenue sharing rules for national TV rights used by the US sports leagues (full revenue sharing) and European football leagues (performance-based reward).

JEL classification: L19; L83

Keywords: Sports league; Revenue sharing; Competitive balance

1. Introduction

The organization of professional sports in the United States differs from the one in Europe in that for each sport, there is one main league (NBA for basketball, MLB for baseball, NFL for American football and NHL for hockey).[1] Consequently, since the

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[1] As pointed out by Cave and Crandall (2001), "The NFL, MLB, NBA and the NHL currently have no professional competitors in their respective sports. These dominant positions have existed for at least two decades. Although entry by new leagues has been quite common in earlier decades, only one new league has been formed in the past 20 years".

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movement of talent across the Atlantic—especially eastward—is negligible, leagues in the United States enjoy a monopsony position in the market for talent. Thus, when American teams compete to attract the best players, only the distribution of talent is affected, while the total amount of talent in the league stays constant.

Conversely, Europe is characterized by one main sport (football) and in each country there is a top domestic league (Premiership in England, Ligue 1 in France, Serie A in Italy, Liga in Spain, etc.). As a result, European leagues can increase their total amount of talent (and hence, their attractiveness to broadcasters) by poaching star players from a foreign league. An illustration of this is the concentration of French players from the Euro-2000-winning squad in England and Italy (15 out of 22) during the season 2000–2001, countries where broadcast revenues are much higher than in France (see Table 3).[2] Therefore, in Europe, not only the teams but the leagues as well have incentives to compete for talent.

Another difference between the United States and Europe is the revenue sharing rules used by the leagues. In the United States, revenues from national TV deals are shared in an egalitarian way. As Scully (1995) explains, "National rights are evenly split among the clubs in the leagues without regards to the performance of particular clubs. It is assumed that these shared revenues are determined by league-wide talent levels."[3] In contrast, in Europe, in countries in which TV rights are sold collectively, the amount a team receives is closely related to its results obtained in the competition[4] (see Tables 1 and 2). There is also less revenue sharing of gate income in European football leagues than in most of the US sports leagues. For example, in England and Italy, there is no sharing of gate income while in Germany only 6% of gate income is paid to the league. In the NFL, 40% of gate income goes to the visiting team. In baseball, 10% and 20% of gate income goes to the visiting team in the National League and in the American League, respectively.

The goal of this paper is to show that the use of performance-based reward schemes by European football leagues can be explained by the competitive environment in which they operate. Conversely, the traditional argument of a demand for a balanced distribution of talent does not in itself explain the equal division rule used in the United States.

The intuition for our result is the following. If inter-league movements of players are not restricted and league-wide talent levels influence the revenue leagues get from national TV deals, then leagues compete for superstar players. However, they cannot do it in a direct way, since players are hired by teams. Hence, a league wishing to attract top players must provide the incentives for domestic teams to bid a higher price than foreign teams. Now, the value of a player who increases the probability of winning increases with the

[2] Further evidence of the enhanced attractiveness of leagues with the highest concentration of star players (Italy, Spain and England) is that top games from the Italian, Spanish and English leagues are broadcasted in France (Canal+, Sport+) and in the Netherlands (Canal+, RTL5).

[3] National TV revenue sharing is also analyzed by Fort and Quirk (1995). As they explain, "national TV contracts in all sports uniformly involve equal sharing of such revenues by all league teams (with some negotiated, temporary exclusion for expansion franchises). In a one-team-one-vote environment, equal sharing is more or less guaranteed because the national contract can be approved only if there is a virtual consensus among league teams. Weak-drawing teams can block unequal sharing proposal by refusing to permit televising of games involving them and strong-drawing teams".

[4] In England, the redistribution scheme also takes into account the number of times a team has been broadcast.