Preface

This book’s emphasis is on political economy and public policy, rather than analysis of microeconomic behaviour, which is covered in several good sports economics textbooks (for example, Fort, 2010; Leeds and von Allmen, 2014; Késenne, 2014). Much of the existing literature draws on US or EU evidence, ignoring rich sources of comparison with other countries’ experience or the behaviour of international organizations (for example, the International Olympic Committee (IOC), the Fédération Internationale de Football Association (FIFA)). This focus includes not just the textbooks, but also influential, and readable, books that emphasize the ‘big business’ side of sports (for example, Quirk and Fort, 1992; Szymanski, 2009). We follow the existing literature in focusing on professional sports and elite events, with little reference to participatory sports. In the public policy arena there is an obvious discrepancy between policymakers’ frequent reference to the health benefits from sports and their funding priorities which favour spectator sports rather than participation.

The book is distinctive in introducing material on Australia, which has high per capita interest in and expenditure on sports, as well as a history of professional sports as long and rich as that of the US or UK. Additionally, Australia has a variety of popular spectator sports that are organized in diverse ways, some of which are global or international in scope while others (notably the very popular Australian Football League (AFL)) are exclusively national, with important implications for governance and for labour markets in particular. According to a 2010 survey (ABS, 2012, 32), 43 per cent of Australians over 15 years old were spectators at a sporting event in the previous 12 months; the most popular sports, in order of number of different individual Australians who attended, were Australian rules football, horse racing, rugby league, motor sports, soccer, cricket, rugby union, harness racing, tennis and dog racing.

1 The North American origins of the literature are reflected in the extensive analysis of the profit-maximizing behaviour of professional sports teams and leagues, focusing on topics such as demand, pricing, scalping, etc. Similar themes have more recently been taken up in the European literature as soccer, rugby union and cricket became more commercialized during the 1990s with large amounts of money flowing into the sports industry.
The major public policy issues specific to professional sports are three-fold. At the end of the season or tournament, fans demand to know who the champion is. This leads naturally to monopoly power for the major league or events. At the same time no club or athlete, although striving to be champion, wants to be a monopolist; competitors are essential, and preferably worthy opponents who will provide a close contest, the result of which is imperfectly predictable. The details vary from sport to sport, but monopoly power is pervasive and requires some degree of tolerance in the face of competition (anti-trust) policies, which generally aim to reduce monopoly power. Collaboration in establishing a competition with accepted rules and procedures is necessary, which is also contrary to the principles of competition policies that normally ban collusion among producers in an industry. The tension between regulatory policies and the peculiar economics of professional sports is especially apparent in labour markets where the employers’ bargaining power has led to practices that would not be tolerated in other parts of the economy. Labour markets are further complicated by variations in ability that are difficult to value precisely, and by factors such as the cost of training young players, the risk of injury, and the relatively early retirement age. These regulatory issues are addressed in Part 1.

A second set of public policy issues concerns the willingness of governments to provide subsidies to sports. Despite the large and increasing revenues accruing to the sports industry, governments especially in North America and Australia have been prepared to pay for the main capital expenditure of professional sports leagues; the stadiums. There has also been an increasing expenditure on hosting sport mega-events from the Olympic Games and FIFA World Cup to a wide range of other events, which is often justified in terms of the economic impact on the city, state or country. Moreover, despite the weak basis for claims of economic benefits, governments are spending increasing amounts bidding to host mega-events, even when the probability of a successful bid is low and allegations of corruption in the decision-making process of the world governing bodies charged with awarding hosting rights have become more common. The economic analysis of such subsidies and the political economy of bidding for mega-events are the subject of Part 2.

Third, many professional sports encounter ethical issues to do with ‘fair play’, corruption, and governance. The origins of the dilemma frequently lie in the evolution of sports from games played by amateurs to big business with high stakes. Corruption may be associated with gambling or with the large prizes associated with winning or qualifying for play-offs or for international competition. Players and clubs may seek unfair advantage by doping. The power of referees/umpires may encourage simulation...
or other ‘unfair’ attempts to gain advantage. The organizing bodies as well as clubs may be tempted into corrupt behaviour, and this in turn may be an incentive for the lack of transparency that characterizes the financial arrangements of many organizations and the frequency of corruption charges; monopoly power lies behind competition for rents, and discourages whistle-blowing that may lead to a player or a club being excluded from lucrative competitions. This range of governance issues is tackled in Part 3.

Some topics are not covered. The sporting goods industry is large; Andreff (2006, 29) estimated total sales to have been €128.6 billion in 1997 and over €200 billion in 2007 (2012, 204), of which the largest segments are clothing and footwear (44 per cent and 20 per cent of the total in 2007), but it is difficult to know how much of the money spent on sportswear was genuinely sports-related. Gambling may stimulate interest in a sport, and in many cases provides financing for the sport. Horse racing, dog racing and jai alai, for example, often depend heavily on betting revenue and have experienced difficulties in jurisdictions where betting was banned or when alternative gambling opportunities became available: for example, the rise of Indian reservation and riverboat casinos during the 1990s harmed horse and dog racing in US states where trackside betting had previously been the only legalized outlet for gambling. Forrest (2006) estimated that total betting on sports in legal markets increased from around US$36 billion in 1998 to over $56 billion in 2003, with 5–10 per cent being retained by bookmakers, and in East Asia over a billion dollars is bet, legally and illegally, on soccer each weekend with over half of that going on the English Premier League. Sponsorship and stadium naming rights

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2 Birdthistle (2007), after noting how many games in the 2006 FIFA World Cup were decided by the referee awarding a red card or a penalty, concluded that bestowing such sweeping authority on the judge ‘invites the risk of perjury’, that is, players simulating injury or diving after a tackle. In most sports the arbiters’ decision is final, but in cricket if the umpire makes a wrong decision, failing to give a batsman out, it is considered unsporting if the batsman does not ‘walk’, i.e. does not voluntarily dismiss himself. The argument is sometimes made that paying the arbiters higher wages would reduce the incentive for corruption, but umpires may always strive to be selected for the most prestigious games; Boeri and Severgnini (2011) provide evidence from Italian soccer of referees pandering to the top clubs, who have the power to terminate their careers at the highest level.

3 The market leaders (Nike, Adidas and Quiksilver, each with over €9 billion in sales) were fashion items for some non-sporting buyers. It is also worth remembering that these companies are much more than their eponymous brand (for example, Nike owns Puma, Converse and Cole Haan, and Adidas owns Reebok and Rockport; both Cole Haan and Rockport are non-sports shoe companies). Outside investors have also become important; for example, Benetton owns Nordica ski boots, Prince rackets and Rollerblade inline skates.

4 At present it is difficult for the sports leagues to capture much revenue. Domestically, British association football claims a percentage from the ‘pools’ and a turnover-related
(which first became common in the late 1980s) are important for some sports and specific events; Jeanrenaud (2006) estimated that global spending on sponsorship amounted to US$26.2 billion in 2003, of which about two-thirds was devoted to sports. In all of these cases, we will only make tangential reference, for example, when sponsorship or gambling leads to ethical issues and is a potential source of corruption.