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PART IV

The economics of sport

Edited by Paul Downward
This section of the book presents seven chapters examining the economics of sport. The economic analysis of professional team sports has a long pedigree dating back to seminal articles from Rottenberg (1956) and Neale (1964) in which the unique importance of playing talent (i.e. labor) to the economic activity in sport leagues was identified as well as other unique features of sport. These include the joint production of sporting contests by teams and the consequent hypothesized need for uncertainty of outcome (or its longer term equivalent competitive balance) for the economic viability and growth of leagues. Discussion about how best to theorize about the market structure of sport leagues also developed.

Neale (1964) argued in the US context that sport leagues gravitated towards a natural monopoly, driven by uncertainty of outcome. Subsequent seminal contributions include Sloane (1971), El-Hodiri and Quirk (1971) and Scully (1974). Sloane identified that sport leagues could be viewed as cartels of interdependent teams rather than monopoly structures. Moreover, in the face of sustained financial losses in English football, it was argued that the objectives of clubs might be better understood as utility maximization, connected to the consumption of resources in the pursuit of sporting success, that is wins, as opposed to profit maximization. The latter assumption was implicit in earlier US analysis. It was also assumed in the first formal analysis of sport leagues by El-Hodiri and Quirk (1971). Finally, Scully (1974) provided the first major piece of empirical work examining the players’ labor market, identifying the determinants of players’ salaries and their weak position relative to clubs, leading to exploitation. In the professional team sport literature, which is now well established, such themes have been revisited extensively, refined, extended and analyzed.

As a developing research base, much of the literature is now available in specialist academic journals such as the *Journal of Sports Economics* and the *International Journal of Sports Finance*, which focus on the economic analysis of sport. Naturally, sport management journals such as the *Journal of Sports Management, European Sport Management Quarterly* and the *International Journal of Sport Marketing and Management* also publish such research. Mainstream economic, management, operational research and sport science journals now also publish sport economics papers and, indeed, textbooks have consolidated this knowledge. For example, in the US key volumes are by Fort (2010) and Leeds and von Allmen (2011).

In Europe, though texts like Szymanski and Kuypers (1999) and Downward and Dawson (2000) provided an economic analysis of professional sport, the seminal contributions in fact...
came from Gratton and Taylor (1985, 1991, 2000). Two important and distinct features of their work, for which they are often not explicitly given credit, is that they took a much more comprehensive view of the economics of sport. They conceptualized a sport continuum linking amateur participation through to professional sport and major events. Linking and servicing these aspects of the sport economy are public, voluntary and private industries supplying labor, facilities, goods and other services. Connected with this was that they examined sport from an economic perspective that was explicitly concerned with public policy. In this respect, for example, policy aiming to promote participation to meet social welfare goals through the provision of facilities, and the regeneration impacts of public investment in sport, were discussed. Coupled with the differences that the US and European literatures of professional team sport had with respect to the objectives of sport teams, their work introduced the perspective that active public policy through sport may be an appropriate approach in social welfare terms. The US literature and much mainstream economic thinking about sports have tended to emphasize the traditional economics view that freely operating markets are the broadly appropriate policy choice. In my subsequent contribution to the literature I have built upon their framework to try to consider alternative policy positions across the broad spectrum of the sport economy (Downward et al., 2009).

The intention of this section of the book is to echo, but also to develop this sentiment. A major difference, however, is that the arguments are presented by authors who have specialized in research in the respective areas. Each has published widely in their field and, significantly, is known for being able to write economics in a manner that is sensitive to the needs of sport management readers as well as to sport economists. As well as producing good theory and robust empirical analysis, they can also write books, survey articles and policy papers in a comprehensive but accessible way. Of course this is not an exhaustive list of potential contributors and it is hoped that by reading their work and exploring the references to their chapters, readers will find an accessible introduction to the material that is covered. Consequently, in this section of the book, mass participation and consumption in sport are explored. Competitive balance, the demand for professional sport – particularly that emanating from the major driver of TV broadcasts – and the labor market in professional sport leagues are examined. Finally, the role of using investment in sport as a public policy tool, by hosting major events, is discussed.

Two contributions examine the mass participation sport sector. In Chapter 25, Downward, Lera-Lopez and Rasciute provide an introduction to the theoretical and empirical economic literature on sport participation. As well as providing a detailed review of the existing literature, the determinants of sport participation and its frequency in Spain are examined to exemplify the economic approach to empirical analysis. Probit and ordered probit estimators are employed. Results coinciding with the existing literature are identified and show that the likelihood of sport participation is mainly determined by parental participation in sport (particularly by sport participation of fathers), gender, class and educational level. Age affects sport in a nonlinear way. Sport participation also seems to be motivated by socializing and the need for entertainment. Watching sport on television, further, seems to be a complementary activity to practicing sport.

The frequency of participation decreases with age and increases with being male and higher social class, but not with education. Formal membership of sports clubs and federations and participating in sport competitions naturally enhance the frequency of sporting participation. From a policy perspective this might suggest that attracting participants to organized sport may enhance their frequency of participation. However, the largest effect on the frequency of sport participation is connected with solitary sport. This underlies the
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generalized importance of informal sport activities and their complementary relationship with other physical activities such as walking for fitness. Coupled with the steady decline of sport participation, this could suggest changing tastes of participants and increased difficulties in using the formal sport system to achieve social policy aims.

Pawlowski and Breuer in Chapter 26 focus on a highly neglected feature of mass sport consumption, which is expenditure on sport products and services. The chapter reviews the existing literature exploring the similarities and differences between the findings of these studies. Comparative international data are also presented. The aim is to suggest future research possibilities. Key suggestions include the need to produce much less aggregated analysis, to refine and provide a consistent theoretical underpinning to research and, significantly, to reflect on the econometric strategies used to examine expenditure data.

The next four chapters of the volume address professional sport. Two chapters examine sport leagues and one each the demand for professional sport and the players’ labor market. In Chapter 27 Kesenne provides an analysis of sport leagues addressing the question of whether it makes any difference that teams try to maximize profits – which is considered to be commercial enterprises’ main objective in microeconomic analysis – instead of trying to pursue maximum sport successes, that is win maximization in (inter)national championships. Crucially it is shown that a different emphasis upon these two objectives can make a substantial difference to insights into the effects of regulations in the market. This is not only in terms of differences in competitive balance, player salaries and total league revenues, but also the imposition of a financial prudence rule. It follows that more detailed empirical research is required to explore and to test these differences to inform sport league governance. At a minimum it suggests that the institutional differences in sport leagues are relevant for policy.

Similarly, Dietl, Fort and Lang in Chapter 28 analyze the impact of regulations on competitive balance in leagues, drawing comparisons between European and North American sport leagues; that is, under the different objectives of utility maximization and profit maximization respectively. League regulation policies such as revenue sharing, talent drafts, payroll caps and reserve systems (the reserve clause in North American leagues and transfer restrictions in European leagues) are examined. A significant contribution of the chapter is that a difference is drawn between the levels of talent in teams and the investment in talent of teams. Whilst the literature, particularly examining profit-maximizing teams in leagues, has generally argued that competitive balance is invariant to league regulation policies, the chapter argues that, moving to any level of generality, this invariance hinges on the interaction between investment in talent and actual talent accumulation to the level put into play during games.

The next two chapters examine the two main sides of professional sport leagues: the primary source of revenues, that is demand, and the primary source of costs, i.e. players. In the first case, in Chapter 29 Buraimo focuses on English football to show how the broadcast demand for football has had a dramatic effect on traditional attendance demand and the way in which football is managed. The chapter argues that league authorities have to manage the dilemma that stadium attendances promote broadcast audiences, but growth in the latter can reduce stadium demand.

In Chapter 30 Frick also uses football to exemplify an analysis of players’ labor markets. The scale of the football market is discussed as well as the determinants of footballers’ salaries, with particular attention being paid to the inherent risk in the occupation, since players can be cut from their teams and may also suffer long-term injuries. The extent to which forms of discrimination against ethnic minorities persist in modern sport leagues is also discussed, as are issues for future research. These include the need to supplement the existing analysis with
ratings of player performance, the extent to which remaining years on a contract affect salaries, a better understanding of the duration of contracts, and the voluntary versus involuntary duration of player careers.

The final chapter of this section examines sport events. In this chapter Gratton charts the historically varying economic rationales for why government (public sector) expenditure on sport has expanded considerably. For example, a transitional emphasis from social welfare to economic regeneration of cities occurred in the UK following rises in unemployment and deindustrialization. The chapter reviews the theory and evidence associated with the potential benefits of hosting major sport events, with a particular focus on the Summer Olympics, and concludes by examining the likelihood of longer-term benefits or legacies being derived from investment in hosting sport events. The chapter concludes by arguing that most evidence relates to the immediate economic impact during and immediately after the event has been held. However, there is a need for research to concentrate on the longer term urban regeneration benefits that sport has the potential to deliver.

References


