

Revenue Sharing, Reserve Clause and Salary Caps in Professional Team Sports Leagues*

Helmut Dietl, Egon Franck, Markus Lang, Alexander Rathke**

University of Zurich

Abstract

In this paper, we provide an analysis of the principal economic issues in the professional team sports industry. We characterize the major peculiarities of this industry and give an overview of the most important league policy measures that are implemented to provide cross subsidies among teams. In particular, we focus on salary caps and compare the US major leagues with the European football leagues. Moreover, we show how to design an efficient salary cap system in the European football leagues.

JEL Classification: L83, M21

Keywords: Team sports leagues, salary cap, revenue sharing, reserve clause

A revised version was published as:

Dietl, H., Franck, E., Lang, M., and Rathke, A. (2009): “Revenue Sharing, Reserve Clause and Salary Caps in Professional Team Sports Leagues”, *International Journal of Global Business and Economics*, Vol. 2, pp. 44-50.

The paper is available upon request from the corresponding author.

* We gratefully acknowledge the financial support provided by the Swiss National Science Foundation (Grant 100012-105270) and the research fund of the University of Zurich. Responsibility for any errors rests with the authors.

** All authors from the University of Zurich, Switzerland. Emails: helmut.dietl@isu.uzh.ch, egon.franck@isu.uzh.ch, markus.lang@isu.uzh.ch, rathke@iew.unizh.ch. Corresponding author: Markus Lang

References

- Andreff, W. and Szymanski, S., “Introduction: Sport and Economics”, in W. Andreff and S. Szymanski (Eds.), *Handbook on the Economics of Sport* (2006), pp. 1–8.
- Arnaut, J., “Independent European Sport Review”, Nyon: UEFA, 2006.
- Atkinson, S., Stanley, L. and Tschirhart, J., “Revenue Sharing as an Incentive in an Agency Problem: An Example from the National Football League”, *The RAND Journal of Economics*, Vol. 19 (1988), pp. 27–43.
- Borland, J. and MacDonald, R., “Demand for Sport”, *Oxford Review of Economic Policy*, Vol. 19 (2003), pp. 478–502.
- Daly, G. and Moore, W.J., “Externalities, Property, Rights, and the Allocation of Resources in Major League Baseball”, *Economic Inquiry*, Vol. 19 (1981), pp. 77–95.
- Dietl, H., Franck, E. and Lang, M., “Overinvestment in Team Sports: A Contest Theory Model”, *Scottish Journal of Political Economy*, Vol. 55 (2008), pp. 353–368.
- Dietl, H., Franck, E. and Lang, M., “Why Football Players may Benefit from the ‘Shadow of the Transfer System’”, *European Journal of Law and Economics*, Vol. 26 (2008), pp. 129–151.
- Dietl, H., Franck, E., Hasan, T. and Lang, M., “Governance of Professional Sports Leagues - Cooperatives versus Contracts”, *International Review of Law and Economics*, Vol. 29 (2009), pp. 127–137.
- Dietl, H., Franck, E., Lang, M. and Rathke, A., “Welfare Effects of Salary Caps in Sports Leagues with Win-Maximizing Clubs”, *ISU Working Paper Series No. 86* (2009).

- Dietl, H., Lang, M. and Rathke, A., “The Effect of Salary Caps in Professional Team Sports on Social Welfare”, *The B.E. Journal of Economic Analysis and Policy*, Vol. 9 (2009), Article 17.
- Dietl, H., Lang, M. and Werner, S., “Social Welfare in Sports Leagues with Profit-Maximizing and/or Win-Maximizing Clubs”, *Southern Economic Journal* (forthcoming in 2009).
- Dietl, H. and Lang, M., “The Effect of Gate Revenue Sharing on Social Welfare”, *Contemporary Economic Policy*, Vol. 26 (2008), pp. 448–459.
- Downward, P. and Dawson, A., “The Economics of Professional Team Sports”, London: Routledge, 2000.
- El Hodiri, M. and Quirk, J., “An Economic Model of a Professional Sports League”, *Journal of Political Economy*, Vol. 79 (1971), pp. 1302–1319.
- Fort, R. and Quirk, J., “Cross-Subsidization, Incentives, and Outcomes in Professional Team Sports Leagues”, *Journal of Economic Literature*, Vol. 33 (1995), pp. 1265–1299.
- Fort, R. and Quirk, J., “Owner Objectives and Competitive Balance”, *Journal of Sports Economics*, Vol. 5 (2004), pp. 20–32.
- Késenne, S., “The Impact of Salary Caps in Professional Team Sports”, *Scottish Journal of Political Economy*, Vol. 47 (2000), pp. 422–430.
- Késenne, S., “The Salary Cap Proposal of the G-14 in European Football”, *European Sport Management Quarterly*, Vol. 3 (2003), pp. 120–128.
- Késenne, S., “Revenue Sharing and Competitive Balance: Does the Invariance Proposition Hold?”, *Journal of Sports Economics*, Vol. 6 (2005), pp. 98–106.

- Késenne, S., “The Win Maximization Model Reconsidered: Flexible Talent Supply and Efficiency Wages”, *Journal of Sports Economics*, Vol. 7 (2006), pp. 416–427.
- Marburger, D., “Gate Revenue Sharing and Luxury Taxes in Professional Sports”, *Contemporary Economic Policy*, Vol. 15 (1997), pp. 114–123.
- Neale, W.C., “The Peculiar Economics of Professional Sports: A Contribution to the Theory of the Firm in Sporting Competition and in Market Competition”, *Quarterly Journal of Economics*, Vol. 78 (1964), pp. 1–14.
- Quirk, J. and Fort, D., “Pay Dirt: The Business of Professional Team Sports”, Princeton: Princeton University Press, 1992.
- Rascher, D.A., “A Model of a Professional Sports League”, in W. Hendricks (Ed.), *Advances in the Economics of Sport* (1997), pp. 27–76.
- Rottenberg, S., “The Baseball Players’ Labor Market”, *Journal of Political Economy*, Vol. 64 (1956), pp. 242–258.
- Sloane, P., “The Economics of Professional Football: The Football Club as a Utility Maximizer”, *Scottish Journal of Political Economy*, Vol. 17 (1971), pp. 121–146.
- Szymanski, S., “The Economic Design of Sporting Contests”, *Journal of Economic Literature*, Vol. 41 (2003), pp. 1137–1187.
- Vrooman, J., “A General Theory of Professional Sports Leagues”, *Southern Economic Journal*, Vol. 61 (1995), pp. 971–990.
- Vrooman, J., “The Economics of American Sports Leagues”, *Scottish Journal of Political Economy*, Vol. 47 (2000), pp. 364–398.