

North American professional sports leagues: institutions at the service of a financial logic?

From the end of the 19th century onwards, sport was professionalised in the United States, and, under pressure from club owners became an essentially commercial activity with the sole objective of maximising profit. Nevertheless, beyond the spectacle, sporting values are put at the service of the promotion of the liberal economic model, and sport in general will hold a very important place in American society and its educational system. However, it is in this context of a liberal economy that, paradoxically, a highly regulated system of organisation of professional sport will emerge. This American model is structured around a few major leagues organised into cartels governing competitions: MLB, NFL, NBA, NHL, and MSL.

An original model

- ***History***

The major leagues were created at the end of the 19th century with the industrial and urban development of the United States. From a sporting point of view, the English influence was felt at the beginning but, from an organisational point of view, the establishment of the major leagues allowed the specificity of the American model to be affirmed, and baseball is the best example of this.

Baseball was initially structured around a national players' association that promoted their interests by allowing them the freedom to change clubs and go to work for the highest bidder. The creation of the National League in 1876 shifted power to the club owners, who succeeded in imposing the famous "reserve clause" in 1880. This clause put an end to the free movement of players from one club to another by making mobility subject to the agreement of the departing club, which led to the creation of the first professional players' union in 1885. This helps us to understand the type of collective bargaining that was to be set up between club owners and players' unions to decide on the sharing of income from the sporting spectacle. In the 20th century, this system became more complex with the success of the major leagues, which became economic and financial stakes for multiple stakeholders: owners, players, unions, agents, public authorities, lawyers, etc.

- ***Closed leagues***

Participation in the competition is based on the purchase of a franchise by an owner and the signing of a contract with the league. All the leagues function in this way in a completely independent manner and without any link with the lower divisions, the national and international federations or the amateur

world. We are in an organisation with an economic purpose (profit maximisation) that is not based, as in Europe, on sports results since there is no mechanism of promotion/relegation to decide who remains within the elite. The economic security of closed leagues to attract investors has given rise to very strict regulations in the service of competitive balance and negotiation between all the stakeholders.

- **Collective bargaining**

The functioning of the league was for a period of four to ten years based on the signing of a collective agreement at the end of the negotiation between all actors. This has always been a decisive moment in the history of American leagues, which is studded with strikes and lockouts. It is indeed a question of deciding collectively on the sharing of the league's revenues between the players and the owners; between the league and the clubs; between the clubs and between the players. This negotiation takes place around the regulatory instruments of the labour market (salary cap, rookie draft, etc.) to try to reach an acceptable compromise between competitive balance and fair distribution of revenue.

- **Geographical mobility**

The geographical mobility of franchises is possible but highly regulated. There is a very strong opposition between those in favour of and those against mobility, depending on whether one favours economic or sporting logic. In the former, the optimal location of clubs is based on the best profit opportunities, mainly due to the size of the markets. In the latter, respect for the fans and the host territories imposes a limit on mobility. The main consequence of such a conflict of logic is the blackmail of relocation used by owners to obtain subsidies for the renovation or construction of new stadia. The search for the optimal location of a franchise from an ecological point of view is not always in harmony with sporting ethics.

Competitive balance

The American leagues have set up instruments that benefit from an exemption from anti-trust laws in the name of improving the competitive balance and consequently the well-being of the population.

- **Income redistribution**

To compensate for the imbalance between large and small markets, it is sufficient to redistribute the income from the sporting spectacle. In this way, the concentration of sporting talent in the hands of the richest actors can be avoided. Different leagues have different ways of redistributing the main revenues

(television broadcasting rights, ticket sales, stadium revenues), with a clear distinction between national and local revenues. The NFL has historically been the most financially supportive league and, despite this, is the one that generates the largest revenues and is the most profitable.

- **Salary cap**

This is the league's overall player salary cap, which is established through collective bargaining. It allows the cap to be defined at the level of each club, thus preventing the richest clubs from acquiring all the best players on the market. Nevertheless, many adjustments and exemptions to these caps exist depending on the league (hard or soft salary cap, luxury tax).

- **Talent allowance**

Although the reserve clause limiting player mobility was abolished in 1976, restrictions still exist depending on whether a player is a free agent or not. For new entrants (from universities, minor leagues or foreign leagues), the American leagues have invented the rookie draft system: each club's choice from the list of players is made in reverse order of the previous season's league ranking. The last club can therefore choose the best - or reputedly the best - player first. Some adjustments have been made to this rule to avoid opportunistic behaviour from low ranking clubs.

In the end, two central questions fuel a debate amongst sports economists: is this regulation of American leagues effective? Can this regulation be transferred to European leagues? Beyond the technical answers given, we must above all ask ourselves if the American model of closed leagues is well adapted to European culture. The simple fact remains that completely cancelling sporting uncertainty changes the spirit of competition.

Further information:

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Jean-Jacques GOUGUET (Dir.), *Le sport professionnel après l'Arrêt Bosman. Une analyse économique internationale*, Pulim, Limoges, 2005.

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Related articles: competitive balance, sporting exception, luxury cap, rookie draft, salary cap.