

## Club deficits: structural financial instability?

### History

The structural deficit of professional football clubs in Europe has given rise to extensive economic literature on the nature and origins of the financial crisis that has affected the sector since the late 1990s. All European clubs have seen their accounts deteriorate and the causes put forward by the economic analyses include both internal causes within the football sector and external causes linked to the economic crises of 2001 and 2008.

- ***Internal causes: the wage relationship***

The wage relationship in the European professional football sector has developed in a very specific way from the 1990s onwards. Players and their agents have managed to gain considerable bargaining power with the clubs in terms of sharing the added value. This makes it possible to understand that clubs have been forced to devote most of their income to player salaries and transfers. Such sharing in favour of employees is in stark contrast to other sectors of the economy where it is in favour of shareholders.

This increase in the cost of footballers in Europe has given rise to the hold-up theory, which is part of the general contract theory of the New Institutionalism. Players are the basis for the sporting success of clubs, which in turn is the source of their main revenues (ticketing, broadcasting rights, sponsorship, merchandising). This is particularly true for superstars. Under these conditions, the loss of a player can lead to considerable financial losses for the club. This is why elite-players can force their clubs to renegotiate the terms of their contract, including a substantial increase in their remuneration, blackmailing them by threatening to leave. There are two outcomes to this confrontation: either the club decides to keep the player with a salary increase that makes the hold-up a reality or the player leaves his club for another that accepts his conditions. Clubs have generally reacted by increasing the length of contracts to avoid player movement and increasing the sale price during the transfer to try to discourage competing clubs.

When you add up all these factors, you can see why European professional football is in financial crisis, with the cost of wages and transfers rising dramatically. It was the Bosman ruling that accelerated this inflation. By liberalising the labour market, this ruling sped up the clubs' 'arms race', as well as their over-indebtedness created by financing this purchasing of sporting talent. When sporting outcomes are not forthcoming, this results in difficult financial situations, especially for small clubs, when there is no last resort payer.

- **External causes: economic crises**

Clubs' financial difficulties can also arise from causes outside the football world. In particular, the football sector can be affected by global economic and financial crises such as the 2001 crisis (new economy) or the 2008 crisis (subprime). Sports economists have therefore sought to analyse the channels through which such global crises can be transmitted to the football sector by affecting the stakeholders who provide its financing:

- Owners may be weakened by the crisis in their industry and be forced to reduce their contribution to the club or even sell it.
- Households may suffer a loss of purchasing power as a result of unemployment due to the crisis and cut back on expenditure that is considered non-essential.
- Sponsors affected by the crisis in their sector of activity are also condemned to reduce their spending on sports partnerships or even cancel them completely in the event of bankruptcy.
- In times of crisis, television stations may experience a loss of revenue because advertisers do not buy advertising space. However, this impact is limited thanks to the multi-annual nature of the contracts linking the broadcast media to the clubs. It is therefore, in the case of the bankruptcy of broadcasting groups or serious financial difficulties that the repercussions on clubs are most painfully felt.
- Public administrations that see their budget deficits widen in times of crisis generally reconsider their support of professional football clubs, which often takes the form of participation in the financing of infrastructures, the reduction of rent charges, the provision of personnel, or the lifting of the requirement to pay tax arrears. This is all the more necessary as this type of expenditure can be politically dangerous in times of crises when more urgent social needs are at stake.

Whatever the causes of the clubs' deficits, the question is why such deficits, the main causes of which have just been described, have not been remedied and why, in the long term, they risk undermining the entire structure of European professional football.

## **Elements of analysis**

- **Deregulation**

The neo-liberal policies introduced in the 1980s did not spare the football world. In particular, the labour market for professional players was made more mobile by the Bosman ruling, which led to an increase in the wage bill and transfer expenses, resulting in chronic

deficits for clubs. In the face of these deficits, the national and European regulatory arsenal for controlling club finances has not been up to the task. This is why UEFA decided to strengthen the methods of budgetary control of clubs with the introduction of the club licence in 2004 and then of financial fair play in 2012. These regulations only really concern the clubs that want to participate in European competitions, i.e., a minority. Moreover, there are many strategies for circumventing these regulations, which explains their relative ineffectiveness. In particular, the biggest clubs are rarely punished to the extent of their accounting manipulations.

Furthermore, European football is characterised by a great deal of heterogeneity in its sporting regulations, which contributes to the inefficiency of the whole. This heterogeneity concerns the mechanisms for controlling the management of clubs, their legal status, the regulation of broadcasting rights, fiscal rules, labour regulations and the control of players' agents. Under such conditions, it is very difficult to devise common rules to serve the financial balance of clubs.

- ***Soft budget constraint***

Owners are willing to cover the chronic deficits of their clubs as long as their objective is not profit maximisation. There are other motives for owning a football club that is not necessarily economically motivated. The biggest clubs owned by sugar daddies can benefit from real financial doping aimed at maximising sporting performance. Economists refer to this situation as soft budget constraint, as opposed to hard budget constraint that is the rule in the mainstream sectors of the economy. This soft budget constraint does not encourage club managers to tighten their budgets, especially since in football culture it is accepted that there will always be a last resort payer. If it is not the owner it will be, for example, the public authorities who may decide that the club is 'too big to fail' and must therefore be saved from bankruptcy.

In conclusion, European professional football is characterised by high financial instability due to multiple internal and external factors. The question is whether a systemic crisis is conceivable or whether the soft budget constraint will always be sufficient. The fear of such a crisis has prompted the European football authorities to propose regulatory instruments for the budgetary control of clubs, which have helped to limit the growth of their financial imbalances. Nevertheless, a certain number of big club managers would like to see the financial insecurity resulting from the operating rules of an open league reduced. It would therefore be by implementing a closed league in Europe that effective budgetary control instruments could be introduced, as is the case in the major leagues in the United States. Here again, the bargaining power of the big clubs is quite considerable. The arms race for maximum sporting success has

deepened the segmentation of European football to such an extent that the European club competition appears to be a quasi-closed league: it is always the same clubs that return from one year to the next and share the bulk of the Champions League revenue. It is therefore interesting to ask whether the blackmail carried out by the big clubs towards the European football authorities is a real request for closure or simply a strategy to continue to benefit from a certain regulatory laxity that allows them to perpetuate a quasi-closed league.

**Further information:**

Wladimir ANDREFF, *An Economic Roadmap to the Dark Side of the Sport*, Palgrave Mac Millan, 2019.

Jérémie BASTIEN, *Le football professionnel européen dans un système capitaliste financiarisé en crise : une approche régulationniste des facteurs de changement institutionnel*, Thèse de sciences économiques, Université de Reims Champagne-Ardenne, 2017.

Jérémie BASTIEN, « Le football professionnel en Europe est-il en crise ? Une réponse régulationniste », *Revue de la régulation*, 21, printemps 2017.

Yann CARIN : *La faillite des clubs français de football : un secteur spécifique*, Thèse de sciences économiques, Université de Limoges, 2019.

**Related articles:** Bosman ruling, sporting exception, financial fair play, European professional sporting leagues, North American professional sports leagues, club owners, regulation, segmentation, superstars.