The Peculiar Economics of Government Policy towards Sport

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Abstract

Professional team sports enjoy subsidies from government, as well as regulatory exemption from standards that apply to other sectors of the economy. The Australian sports economics literature has, however, focused on competitive balance, with few studies examining government policies. This paper examines government policies such as subsidies, mega-event bidding, salary caps and player draft systems. We argue that the peculiar nature of professional sports provides some justification for such distinctive government policies. However, there is need for greater transparency, better-directed funding, and genuine public debate on some of these policies to enable considered evaluation of their benefits and costs.

Introduction

The ‘peculiar’ nature of sporting activities makes them distinct from other types of industry and has led to extensive government intervention, either in providing subsidies or exempting sports businesses from labour, competition or other legislation. Economists might justify such intervention on the grounds of externalities, natural monopoly and competitive fairness. However, most of these justifications have been assumed rather than held to any level of real scrutiny. Moreover, in Australia such arguments have become dwarfed by emotional arguments based on ill-defined concepts such as ‘national pride’, ‘competitive balance’ and ‘fairness’. This has seen governments take an active role in funding sport and providing regulatory exemptions which are unique to this industry.

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2 Sports economics as a discipline dates from Rottenberg’s (1956) ‘uncertainty of outcome hypothesis’, which states that sports fan interest is greatest when the result is least certain, and Neale’s (1964) exposition of ‘the peculiar economics of sports’, which highlighted the distinctive economic characteristics of sporting leagues.
This paper raises four questions about Australian government policy towards sports. First, why spend public money on sports? Second, why subsidise bidding for sports mega-events and the hosting of sports events? Third, why subsidise professional team sports? Fourth, why provide regulatory exemptions which are unique to the sports industry?

Some major questions regarding government policy over sport

Q1. Why spend public money on sport?

In its 2003/04 budget, the Queensland government highlighted an outdoor facility at Deagon, eight multi-sports fields at Zillmere, and a baseball facility at Ormiston, but the combined cost of all such amateur sports projects was less than $1 million. At the same time, the government was providing most of the funding for the $280-million Suncorp Stadium and a new stadium on the Gold Coast costing $130 million, for which the main tenants are professional sporting teams.³

Funding sport has psychological appeal. Many people participate in sport and, in general, with a positive impact on their health and quality of life. The direct and indirect economic and social benefits of this are widely accepted: lower healthcare costs, reductions in productivity losses from illness, and the like.⁴ Notwithstanding arguments about health costs and absenteeism due to sporting injuries, participation in sports is likely to generate a net gain for society.

However, in Australia public funding for sports goes overwhelmingly to elite sports — in particular, professional sportspeople and non-professional Olympic level athletes. Such sports may yield a more emotional type of positive externality. Such phrases as ‘an important part of the national psyche’ are often deployed by those in the sector, the media and politicians. Indeed, there would be few sports fans who have not experienced a feeling of euphoria after their local or national team has pulled off a heroic victory against the odds. We will

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³ Figures from Wilson and Pomfret (2009).
⁴ For example, WHO (2011) points out that physical inactivity is the fourth-leading risk factor in global mortality. It identifies sport as one aspect of a more broad class of activities which yield beneficial health outcomes such as improved cardiovascular function, better control of cholesterol, improvements in glucose tolerance and hence protection against the onset of type-2 diabetes, and even anti-depressant effects. This leads to an interesting debate as to which activities lead to the greatest net gains. Waddington et al. (1997) identified that rhythmic, non-contact sports yield the greatest benefits; ‘elite contact sports’ had the lowest net gains due to costs of injury.
refer to it as the ‘warm-glow effect’. More recently, there have also been cases where corruption has been associated with outcomes in various sports. Illicit drug-taking pervades professional cycling, and there have been allegations of match-fixing in football and cricket. These types of scandals obviously temper warm-glow effects, but they are rarely incorporated into arguments justifying government spending.

A case is sometimes made that elite athletes provide role models for young Australians, encouraging them to participate as well as spectate. There is little evidence of this link, and it could be argued that schoolteachers have more influence than sports stars over teenagers’ decisions to participate in sports. While the positive psychological effects are embraced, potential negative effects stemming from the violence associated with some team sports, and the effects on family relationships caused by over-zealous or fanatical following of sport, are often overlooked by those calling for and providing funding.

Overall, it is clear that sport may generate both positive and negative externalities. The key is to design funding mechanisms which encourage the former rather than the latter. A key aspect of this is the nature and direction of sports funding; providing a public tennis court is more easily justified by a public health externality than building a sports stadium. Funding for elite sports may be justified by the warm-glow externality, but governments should be transparent about the cost of the glow.

**Q2. Why subsidise sporting mega-events?**

On 7 September 2006 a contested legal claim relating to the staging of the Le Mans event in Adelaide was settled and $1.87 million was written off in 2006–07.

A key target for sport funding is attracting and staging sporting mega-events. These events are one-off and winning them is probabilistic. If the bid is unsuccessful, there appears to be little public benefit, especially as the costs of bids are hidden and any value as a commitment signal seems dubious. For

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5 Of course, there is an obvious corollary to the warm-glow effect. If wins at elite level leave a warm glow, then losses may act in the opposite direction. For example, Columbian footballer Andres Escobar was murdered in 1994 and the crime is generally believed to have been perpetrated as a reprisal for his own-goal in the World Cup held in that year. There is speculation that the murder may also have been associated with gambling losses, which potentially illustrates another ‘bad’ associated with high-profile sports.

6 Two recent examples in cricket are the betting scandals which surrounded Hansie Cronje in 2000 and of members of the Pakistan team in 2010. Numerous allegations of corruption in football can be found in Hill (2007).

7 The Australian leg of the then new Asia-Pacific Le Mans car racing series (held in Adelaide over New Year’s Eve 2000/1) was a commercial flop, and was not repeated, despite a nine-year contract. The state government’s funding for the race ran into the millions of dollars, and was heavily criticized in the 2007 Auditor General’s Report for the SA Tourism Commission (the quote is from page 15 of the Report).
successful bids, there is much evidence that projected social benefits turn out to be outweighed by social costs. Authors such as Baade (2006) and Coates (2010) have demonstrated that costs tend to be understated in \textit{a priori} budgeting for mega-events. This may be viewed cynically as the result of parties with a desire to project benefits from a prospective event only commissioning reports which are incomplete and misleading. However, even where innocent errors are made in these types of economic impact studies, this may lead to a ‘winner’s curse’. Rival cities lodge bids which reflect the expected economic and social value of the event. If bidders are misled by overstated net benefits, the eventual winner may be the one whose expectations were most inflated — and hence the bidder most likely to make the biggest loss.\textsuperscript{8}

Advocates of bidding for sports mega-events play up positive externalities whose benefits are difficult to measure. Apart from the warm-glow effect, mega-events are claimed to bring in tourists, raise the profile of the host city or country and have legacy effects. All of these claims could be true, but mega-events may deter non-sports visitors and induce non-fans to leave town, and the legacy effects may be a debt overhang rather than usable facilities (Siegfried and Zimbalist 2006). In general, and as illustrated by the specific case of the Le Mans Adelaide event, ex-ante studies by consultants promise large net benefits while ex-post evaluation studies show net costs (Pomfret, Wilson and Lobmayr 2010).\textsuperscript{9} While no ex-post benefit/cost study has yet been conducted into the 2010 Commonwealth Games in Delhi, there is much anecdotal evidence to suggest that there were few gains to ordinary citizens. Indeed, the failure of many facilities to reach international standards and the much-reported collapse of a new pedestrian bridge to one of the main stadia were sources of national shame rather than eliciting the feelings of national pride which are so often presented as a tangible external benefit.

Even if a bid is unsuccessful, there are beneficiaries. For its 1992 bid to host the 1998 Commonwealth Games, Adelaide reportedly spent $600,000 to be the representative bidder from Australia and a further $4.1 million on the campaign, and had lined up a $25 million government subsidy for the event itself.\textsuperscript{10} Furthermore, the official figure of $4.1 million only included salaries,

\textsuperscript{8} See Giesecke and Madden (2007) and Siegfried and Zimbalist (2006) on the systematic problems associated with many \textit{a priori} economic impact statements. The ‘winner’s curse’ argument highlights the need for serious public scrutiny of benefits stated by politicians and sporting agencies before or during a bidding process. By way of example, Coates (2010) estimates that the total costs of staging the 2010 World Cup in South Africa were greater than US$5 billion. This is against projected costs of US$421 million.

\textsuperscript{9} Some stark examples of exaggerated claims associated with mega-event studies are outlined in Matheson (2006), who cites examples of claims of 100,000 visitors predicted for a single game in Denver where the capacity of the stadium was 20,000, and claims that one in 30 visitors to New York travel solely for the US Open tennis. Such exaggerated claims, as well as other systematic errors in \textit{a priori} estimates lead to over-inflated bids.

\textsuperscript{10} Details of the stage-one bid taken from statements made from the Hon. J. K. G. Oswald MP, SA Parliamentary Debates, 1994-95, page 197. The A$25 million figure is not easily ascertainable from SA
administrative expenses, equipment, sundries, accommodation and service costs for the bidding office, and it seems likely that it excludes other consultancy fees (for example, to marketing and transport companies). Moreover, the velodrome constructed at the state government’s expense could be considered as another cost of making what turned out to be an unsuccessful bid. Ultimately, Kuala Lumpur emerged as the winner of the bidding race for the event.

In the bidding to host the 2018 and 2022 soccer World Cup competitions, Australia spent at least $75 million in public funds. Debates surrounding the use of these funds include accusations that a large portion of public spending was being spent on lobbying, including some items that might be considered as bribes. This brings into question two important aspects of bidding. The first is who stands to gain from both successful bids and the process of bidding itself. Certainly, lobbyists who act as a conduit between those with decision-making power over hosting rights and governments stand to gain. However, marketing firms, construction companies, and relevant sporting agencies are all potential beneficiaries.

The second issue is the integrity of the bidding process. For some time, there has been speculation surrounding the bidding for hosting rights of events such as the Olympic Games and the FIFA World Cup. Following evidence of bribery associated with Salt Lake City’s bid to host the 2002 Winter Olympics, 10 members of the International Olympic Committee were expelled and a further 10 were sanctioned. Although no legal crime may be involved, there is a sense that gifts offered to those voting on bids are excessive and non-transparent. This is obviously problematic where public funding is used.

11 Cabinet approved the construction of a velodrome contingent on winning the right to be the Australian representative bidder for the 1998 games. While this facility has been used for other events, the Commonwealth Games bid is implicated as the motivation for its completion at a cost of $14.3 million. Data in this paragraph are from the South Australian Department of Recreation and Sport Annual Report 1989/90 through 1992/93.
13 If Australia had been successful in its bid to host the World Cup, eight out of the eleven stadia would have been either built (Blacktown, Perth and Canberra) or significantly upgraded (Gold Coast Stadium, Adelaide Oval, Newcastle, Sydney Football Stadium and Townsville Stadium); see Australian World Cup Bid website: www.australiabid.com.au; accessed 24 October 2010. The soccer World Cup bid became controversial because other two major football codes — the Australian Football League (AFL) and the National Rugby League (NRL) — worried that government funding was promoting their competitor, the Football Federation of Australia (FFA).
14 Adelaide’s 1992 bid for the 1998 Games was drawn into the Salt Lake corruption scandal controversy when Adelaide mayor Steve Condous claimed in 1999 that three countries’ representatives (from Pakistan, Sri Lanka and an unnamed African country) had asked for incentives such as sponsoring children to study at the University of Adelaide in return for votes. He reportedly refused to comply with their demands — see The Independent (London) 20 January 2009;http://www.independent.co.uk/sport/sports-politics-adelaide-refused-bribery-demands-1075143.html; accessed 25 May 2009.
15 See, for example, Jennings (2007). Bidding for the 2018 and 2022 soccer World Cups saw two of the 24-member FIFA executive suspended following bribery accusations, and a succession of accusations and
The bidding for sporting mega-events is plagued with issues that should lead governments to be very wary of investing public funds. The decision-making process of key international sporting bodies is non-transparent and, at worst, may be corrupt. There are question marks over how funds are used (bribes versus legitimate marketing) and who benefits from bidding and from ultimate success. In addition, empirical evidence almost overwhelmingly suggests that net benefits, if any, are small from hosting such events (Siegfried and Zimbalist 2006). Thus, this is an area where greater transparency and public debate is warranted.

Q3. Why subsidise professional team sports?

Geelong AFL club chief executive Brian Cook has warned the federal government it may suffer a backlash in one of its most marginal seats if it fails to match an opposition pledge to upgrade Skilled Stadium. The Liberals proposed a $36 million injection into the development plan … Mr. Cook welcomed the pledge, saying it would be a popular move among Geelong supporters [in the nearby marginal seat of Corangamite].

Professional team sports should be among the world’s most profitable industries. The main inputs are an enclosed stadium and two sets of players. Revenue comes from live spectators, concession stands, (increasingly) TV rights, and merchandising. Moreover, in professional team sports the top league (the AFL, NRL or the A League, for example) invariably enjoys monopoly power; fans want to see a single, undisputed national champion, and any challenges from new or breakaway leagues (as in Australian rugby league in the 1990s) are generally short-lived.

Most professional team sports run up accounting losses. Nevertheless, the major Australian leagues make large economic profits, which take the form of personal incomes far in excess of the recipient’s opportunity cost; for example, the top administrators and players in the AFL earn in excess of $800,000 per year, which is likely to be far more than they could earn in any alternative job and would be lower if league revenues (including government subsidies) were lower. Another feature of the peculiar economics of professional team sports is that few clubs actually go bankrupt, however poorly managed and despite counter-accusations of impropriety among bidding nations, while the final outcomes were widely condemned as not being in the best interests of the sport.

17 Australian ownership structures such as members’ clubs provide little incentive to earn accounting profits; the ‘owners/shareholders’ value on-field success rather than financial dividends. Even in the more capitalist setting of US professional sports, clubs make accounting losses, but rich owners benefit from the tax advantages of offsetting current losses against other income while making capital gains from rising franchise values (Fort 2006). On the international level, heads of monopolies such as the IOC or FIFA enjoy lavish lifestyles paid from the revenues of their ‘not-for-profit’ organisations.
accounting losses, and the most that happens is reorganization of a league’s structure, with existing players and administrators continuing to benefit from the revenue stream. This separation of rents from accounting profits is an aspect which tends to be underplayed in the policy debate.

Nevertheless, most public subsidies accrue directly to professional team sports. Stadia, a major cost item of professional teams, are most often provided by the public sector. This appears to be especially the case in Australia and the USA; Wilson and Pomfret (2009) identify spending of around $2 billion on stadium infrastructure by all levels of Australian government over the period 2000–10. The economics of such investment is unclear when the main beneficiaries from such expenditure are professional team sports. Positive externalities, as highlighted in the first section, are more likely to be attributed to ‘grass-roots’-type sports, which have a more direct effect on participation, and are not associated with negative aspects such as fanaticism or crowd violence. Under-provision is less likely in the professional team sports sector.

Contributions to stadium costs by the sporting bodies themselves tend to be very small. For example, a planned upgrade to Aurora Stadium in Launceston has attracted $35 million in government funding since 1998 and there are now calls for an extra $50–60 million. To date, the Hawthorn AFL club has played four or five games annually at the ground and has also received sponsorship support to the value of $16.4 million from the state government of Tasmania to do so. Each AFL game at the ground has been previously estimated to cost between $300–500 000, and since this does not include the capital costs of stadia these figures are understated.

So why would governments undertake such spending? The most obvious explanation is that sport is seen as a vote winner, as suggested by the example of the Geelong Skilled Stadium, instanced above. Indeed, in Australia there is a strong following for team sports, and there is some evidence to suggest that the upgrading of sporting stadia is popular among citizens. Or, at least, that is what politicians seem to believe. In the 2010 election in South Australia, the suitable model for a new stadium was a major election issue; the Liberal party argued for a new stadium to be built in the western parklands at a cost of around $800 million, while the incumbent Labor government announced a redevelopment

18 This represents funding of around $230 per household in Australia. Some of this was earmarked for future periods and did not proceed, such as the stadium planned for Perth. However, since that date, new proposals such as the Adelaide Oval upgrade ($535 million in most recent costings) and other upgrades, including Perth Stadium, were announced by government contingent on Australia winning its bid for the 2022 World Cup.
19 For Australian evidence, see Vamplew (1992).
20 Other matches are held irregularly between different AFL clubs, and a handful of A-League soccer games have been played at the stadium. See ‘Tas footing big bill for York Park Match’, ABC News, 10 June 2004; available at: http://www.abc.net.au/news/stories/2004/06/10/1128808.htm
of the Adelaide Oval at a cost of $435 million which, after the election, was revealed to be a misrepresentation.\(^2\) Neither party — and few commentators — raised the more general question of whether public funding was justified at all.

Muddying any measure of public sentiment are two factors. The first is that the spending is often non-transparent. For example, in the media report cited above with regard to the per-game costs of hosting AFL in Launceston, no confirmation could be obtained from government because of ‘confidential commercial agreements’. Second, as noted the public statements as to the economic benefits of these events appear to be overinflated. Hence, voters are not presented with transparent expenditure data or evidence that funding team sports generates large gains for the economy. This is consistent with an explanation based on single-issue voting; sports fans may vote for the candidate offering the best stadium irrespective of cost, while non-transparency hides the cost from those voters who are not interested in sports.\(^2\)

As with bidding for mega-events, some people benefit from spending on sports stadia irrespective of whether the social benefits are positive or not. Most obviously the teams using the subsidised facilities benefit, and are keen to overstate the benefits and understate their own ability to pay. However, it is difficult to imagine any major difference in AFL output if, say, TV revenues were spent on stadia and personnel received lower incomes.

Other possibly interested parties include the media. Local newspapers whose sales may be in large part driven by the sports pages and the success of local teams will support state or local government spending to favour local teams. This is apparent in Adelaide, where the single major newspaper in the state is a vocal supporter of any proposal for public spending on upgrading AAMI Stadium or the Oval, or, even better, building a new stadium. Inter-state competition fuels such lobbying, but the national benefit from upgrading all major cities’ stadia is unclear; if it benefits spectators and fans, then they — not the general taxpayer — should pay for the greater comfort.\(^3\)

\(^{21}\) See Hansard, Parliament of South Australia, 22 June 2010 (p. 507) for details of clarification made by the Treasurer relating to the higher costs for the Adelaide Oval upgrade which were known prior to the election.
\(^{22}\) In further support, there is apparent policy convergence between mainstream political parties on sports funding for stadia. Even where differences occur, such as those between the Labor party (upgrade of Adelaide Oval) and the Liberal party (new stadium) in South Australia, the arguments are emotive rather than economic. After losing the 2010 State election, the Liberal leader stated that while her party opposed the upgrade: ‘At the end of the day I’m not going to weep into my Weetbix in the morning. … It’s not something that I think is devastating personally to me if we end up with football at the Adelaide Oval.’ http://www.abc.net.au/news/stories/2011/03/02/3152774.htm; accessed 4 March 2011.
\(^{23}\) Some proponents of public spending invoke the equity consideration that many sports fans are from poorer economic groups and would be less able to participate in an important communal activity in the absence of public subsidies. The main feature of recent stadia upgrades, however, has been the provision of corporate boxes rather than improved access at low ticket prices.
Q4. Why provide regulatory exemptions for sport?

The AFL has a Special Distribution Fund, the proceeds of which are distributed disproportionately between the clubs based inversely on profitability. This is funded by a uniform tax on match entry fees. In 2010, the AFL proposed a variation such that the tax will rise for some successful clubs and fall for others. The underlying principle is to maintain competitive and financial equality among the member clubs.24

The regulatory environment in which major sports operate is unique to the sector. In contrast to other sectors of the economy, sporting leagues prevent entry of new clubs, form cartels, engage in price-fixing, and impose restrictions on the labour market that are anti-competitive and would be illegal in other sectors.25 One much-discussed reason behind such exemptions is the ‘peculiar’ nature of professional team sports. In particular, unlike most industries, sporting teams rely on their rivals to produce output. Moreover, they require an overt set of rules which determine how one team will be crowned as the champion. The quality of output in terms of individual games and the league overall may be a function of the competitive balance that exists in the competition. Hence, a case may be made for exemption from competition policy both because of the structure of national competitions (AFL, NRL, A-League, etc) which entail cartel-like barriers to entry and the desirability of ensuring that affluent clubs do not dominate.26

In Australia, competitive balance has been the most-often cited reason for regulation exemptions, particularly those relating to labour markets. Nonetheless, there is some dispute about exactly what competitive balance entails. As noted by Sloane (1986), concepts such as uncertainty of each match, the number of teams still in contention to win the league, and the number of teams that win the league over many years might be equally considered as competitive balance.27 Moreover, the impact of competitive balance on actual attendance is still somewhat unclear. While some authors have found a strong positive correlation (Lenten 2009; Borland and Lye 1992), others have found

25 Academics would be unhappy with a job market draft for new PhD graduates where the poorest university had first pick.
26 The cartel-like structure of the league follows from a universal desire to know which team is the best in the country, and this cannot be satisfied if there are several parallel leagues whose teams never meet. That does not mean that the league should necessarily be a closed cartel of clubs, as in all of the major professional sports leagues in Australia (and North America). In European soccer, a system of promotion and relegation enables clubs to move in and out of the top league based on playing performance. There may be competition between codes, and this is particularly virulent in Australia where AFL, NRL and soccer all have strong followings, but few fans see the codes as close substitutes.
27 This debate continues in the literature. For a recent contribution, see Lenten 2009b.
less support (Donihue et al. 2007; Czarnitzki and Stadtmann 2002). The casual observation can also be made that in British football, for example, some of the largest attendances for many lower-ranked clubs in recent years occur as a result of meeting with vastly superior opposition. Hence, the chance of an upset, or the opportunity to see star players even if part of the opposing team, may draw crowds. Further, most of the topflight teams in the English Premier League charge higher entry prices for home games against the strongest teams in the competition, indicating strong demand for such games.

Sporting leagues, to some extent, must behave like cartels. Rules relating to how competition will occur and how the champion will be decided need to be established collectively, for example. However, the power of leagues over their participating clubs is not just confined to the determination of rules for competition. Most leagues engage in some form of revenue distribution, which may be done for financial reasons, as in the case of the proposed AFL tax above, or on the grounds of competitive balance. In the case of the AFL Equalisation levy, highly taxed clubs are those with higher average attendances. Arguably, these clubs should be able to capture the spoils of their success and reinvest to their own benefit. While no team can exist without rivals, it is unclear as to how much equity there needs to be in the system. Further, clubs which might get into financial trouble could well be those which are not economically viable in not having a sufficient fan base, etc. We do not see such an explicit profit-sharing arrangement in other industries.

Given that off- and on-field performance are not mutually exclusive, the arguments for and against such policies become blurred. Adding to that are objectives the league has itself which may or may not suit all member clubs. An example is the preferential draft system in the AFL and the implications for clubs finishing low on the ladder; over the forthcoming period with new clubs entering the competition, their preferential draft picks come at the expense of the clubs who would normally receive them. Hence, governing sports bodies carry with them authoritative power that has the capacity to seriously compromise the fortunes of any individual club and, being outside the legal system, disadvantaged clubs are denied the redress that companies in other industries could seek.

Labour-market regulations are perhaps the most controversial issue in Australian team sports. The AFL, NRL and FFA all employ forms of price-fixing by way of salary caps and/or player draft systems. For example, in the AFL, a player draft exists which effectively permits the lower-ranked clubs to have first

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28 Donihue et al. (2007) find that home-team form is a significant positive determinant but that the quality of opposition is not a significant for crowd attendances at Major League Baseball spring games. Czarnitzki and Stadtmann (2002) find uncertainty not to be a significant determinant of crowd attendance in top-division German football.
pick of all new entrant players and those out of contract. While some trade is permitted outside of the draft between clubs, it is effectively relegated to a barter system over player switches and draft-pick trading. The rationale is to try and ensure that there is some form of competitive balance. Indeed, under this system, only three teams out of 16 have not contested the AFL Grand Final since 1997. However, this again relates to the concept of how competitive balance is measured. Assuming the draft and other equalisation procedures (gate equalisation and salary cap) have been largely a cause for such a result, it might be questioned whether in the long run fans will look favourably on what could be argued to be contrived outcomes in the sport. Indeed, there is no evidence to suggest that when a few teams dominate, the popularity of team sports declines; evidence from European soccer leagues suggests otherwise.\(^{29}\)

Two components of these regulations are worth examining in more detail. The first is the player draft. There are few industries in which employees are effectively drafted by firms. While some government allocation of labour, such as teachers, has traditionally taken place, in particular to more remote locations, Australian sporting leagues stand out in regard to forced labour mobility. There is evidence to suggest that these types of draft rules may create perverse incentives to lose, with lower teams deliberately throwing games to ensure a higher draft pick in the following year (Taylor and Trogdon 2002). Perhaps more important, however, are the restraints placed on the freedom of individual players. Players arguably have as much right to choose their location of employment as any other worker in Australia.

The second is the policy of a salary cap. Capping total wages in the sector, which like any price cap is necessarily done below equilibrium, represents a transfer of wealth from players to owners or those with other vested interests. Moreover, enforcement of such regulation is difficult, as illustrated by the length of time over which Melbourne Storm breached the NRL salary gap before being punished.\(^{30}\) What is unclear is whether salary caps achieve all that is claimed for them. While ensuring that all clubs have a wage bill which is approximately equal, long-term market signals to players may be distorted, and there have been several recent cases of players moving from one football code to another.\(^{31}\)

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\(^{29}\) In the English Premier League, which commenced in 1992, all of the titles except one have been shared between three clubs (Arsenal, Chelsea and Manchester United). During this period, over 40 teams have competed in the competition. Attendances and TV audiences are on the rise rather than in decline. Similarly, the dominance of Spain’s La Liga by Real Madrid and Barcelona has not dented its popularity.

\(^{30}\) Melbourne Storm was stripped of two premierships for salary-cap breaches, fined, ordered to return prize money and prohibited from earning competitive points in the 2010 season. For those two years, the league now effectively has no champion.

\(^{31}\) Where prices paid by consumers directly (ticket entry and merchandise) or indirectly (TV rights) convey information relating to the economic value of the activity, to not pay players according to their marginal product sends distorted signals which may affect choices over which sport to play, just as public subsidies for individual venues may do. One example of shifting loyalty is the signing by AFL expansion team Western
Moreover, it might well be argued that teams that are successful in attendance terms deserve to reinvest the rewards of their success just as firms in other industries do. There is no doubt that the peculiar nature of professional team sports justifies nuanced application of competition policy and other legislation. At the same time, the distribution of the large rents involved in team sports turns on the interaction between the regulatory environment and market forces. In Australia, competitive balance has provided a basis for pervasive distortion in this industry, particularly in labour markets. The exact economic effects of rules such as player drafts and salary caps have been under-researched in Australia and there has been little public debate. Path dependence explains many regulations applying to team sports, and hence it may be time to re-examine their motivation and effects. The blurring of the sporting ethos and business practice, routinely displayed in much of the media, exacerbates the difficulty of applying a sensible regulatory regime to professional team sports and other sporting activities that have become big business.  

**Conclusions**

Sport is a high-profile activity in Australia. Government policies are often justified by the health benefits from participation, but the reality of public spending is that it goes overwhelmingly to elite sports. Governments at all levels finance bids to bring mega- (and sometimes not so mega-) sporting events to Australia or to their city or state, and they justify such expenditure by the economic benefits from hosting such events. Governments also spend large sums in support of professional team sports, most obviously in subsidising the stadia which are the main non-labour expenses of these businesses. Finally, the professional sports industry is permitted to engage in anti-competitive practices which would be illegal in other sectors of the economy and which deny basic freedoms for the production-line employees. All of these government policies towards sport are potentially flawed and the amounts spent are substantial, but they are implemented with minimal public debate. Although some public

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32 An example of emotive semantics is that sellers of second-hand tickets to sporting events are called ‘scalpers’ and vilified more than used-car salesmen or real-estate agents. Analysis of public policy is also obstructed by lack of transparency in government statements and accounts, which make it difficult to assess issues such as tax treatment or bankruptcy in the context of commercial sports. Ironically, governments justify lack of transparency on the grounds of commercial confidence (presumably because they are dealing with entities that can be individually identified), while not acknowledging that sport has become big business characterized by monopoly power.
policies may be justified by the peculiar economics of commercial sporting events, the extent of government intervention demands greater transparency and accountability than is currently observed in Australia.

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