



ELSEVIER

Journal of Economic Psychology 23 (2002) 421–425

JOURNAL OF
**Economic
Psychology**

www.elsevier.com/locate/joep

Book review

The Economics of Sport, Volumes I and II, The International Library of Critical Writings in Economics series, Number 135; Andrew Zimbalist (Ed.). Edward Elgar Publishing, Cheltenham UK; pp. 1,312, ISBN 1 84064 421 4, 295 Pounds Sterling

This recent addition to the International Library of Critical Writings in Economics has the task of pulling together, in the language of Elgar, the contributions ‘of the most important articles’ in the relatively new and growing branch of Sports Economics. The two volumes are each divided into a number of parts addressing themes in Sports Economics. Each part has the papers arranged in broad chronological order to help the reader get a feel for the development of the issues discussed.

Volume 1 opens with a series of 10 articles addressing the Theory of Sports Leagues. Notable pieces include the seminal work by Simon Rottenberg and Walter C. Neale, who laid the foundations of the analysis of the ‘peculiar’ nature of sports economics by stating what has now become known as the ‘Uncertainty of Outcome Hypothesis’. This hypothesis postulates a key externality in sports, stating that other things being equal, close competition between individual teams produces greater interest in league fixtures overall, and therefore increases total attendance and revenue not only for teams in a specific contest, but all other teams and hence the league as a whole. These spill-over effects to the league from individual contests comprise the externality. In contrast, domination of a league by a single club would reduce public interest in the sport, lowering attendance at games not involving the dominant team, even if the dominant team itself continues to enjoy strong support. In the long run, even the dominant team suffers. Consequently, sporting competition is essential to the economic well-being of sports leagues. The subsequent analysis of this peculiar economics, covered in the other papers in part 1, received impetus from the paper by Mohamed El-Hodiri and James Quirk which is the seminal attempt to formalise the hypothesis as part of a formal model of a sports league.

The remainder of the papers in this section address aspects of policy intervention in the management of sports leagues. The focus is upon cross-subsidisation policies, in the form of revenue redistribution between teams, or restrictions on athletes’ mobility, aimed at preventing uncertainty of outcome falling. The sharing of gate revenues is an obvious example. To the lay reader perhaps less obvious examples of cross subsidisation would be the ‘reserve-option’ clause in US sports – particularly baseball – and the ‘retain and transfer’ system in soccer. These contractual regimes essentially gave employing clubs monopsony power over renegotiating contracts with athletes. Consequently, salaries can be held lower than they otherwise might have been, making high talent affordable to all teams and preventing the simple

gravitation of athletes towards already stronger teams by competitive auction. A notable paper in this section is Rodney Fort and James Quirk's theoretical and empirical analysis of the effects of these policies. They show that somewhat paradoxically, such policy interventions have, in fact, been ineffective in terms of promoting competitive balance between teams. The implication is that the policies specifically targeted at the labour market have acted to extract economic rents from professional athletes. The invariance of the results of sporting contests to such policy interventions is an example of the 'Coase theorem' at work. It should be noted, however, that such results do seem to hinge upon the specification of the labour market and production function. The most recent paper in this section written by Stefan Kesenne implies this finding. Indeed this is a theme, which is currently emerging in the literature that the book is not able to capture. Part II of the volume concludes the discussion of Sports Leagues by presenting two articles that examine the antitrust analysis of sports leagues.

In contrast, Part III concludes Volume I with a weighty section of 31 articles that specifically examine the sports labour market. The volume of literature reflects the interest in the labour market for the reasons noted above. The section opens with Gerald Scully's seminal analysis which reveals the huge extent of monopsonistic exploitation in the baseball labour market. Scully's analysis provided a framework by which separate regressions were analysed to provide a direct measure of players' marginal revenue products. First, their contribution to win percentages of clubs – i.e. their marginal physical product – is identified. The contributions of players are measured by statistics concerning their performance. Second the marginal revenue of clubs is identified by regressing the clubs revenue upon the team's win percentage, i.e. output. Calculation of the marginal revenue product can thus follow and a comparison made with players' salaries. Subsequent articles by, for example, Lawrence Kahn thus discuss the importance of Sports Leagues as a laboratory for Labour-market research. Further articles by Kahn and, among others, Anthony Krautmann and Margaret Oppenheimer, Timothy Hylan, Maureen Lage and Michael Treglia then chart the changes in payment to athletes, coupled with the lengthening of contracts, as a result of the movement towards free agency. This occurred in the 1970s in US sports and implied the removal and reduction in strength of labour market policies such as the reserve-option clause. Other articles address coaching efficiency, player disability and Black male earnings.

Volume II opens where Volume I left off by including 11 articles that explore racial discrimination. Analysis focuses on the labour market for each of the main US professional team sports: Football, Ice Hockey, Basketball and Baseball. A notable seminal example is Marshall Medoff's paper in which the simultaneous equation bias of Scully's original approach is identified. Papers by Clark Nardinelli and Curtis Simon, David Findlay and Clifford Reid and Joseph McGarrity, Harvey Palmer and Marc Poitras, respectively, analyse discrimination in consumer markets for memorabilia, voting in the Baseball Hall of Fame, and Baseball player cards.

Part 2 of this volume moves attention away from supply side issues to provide eight studies of attendance demand at professional team sports. Roger Noll's seminal work exploring the effects of price on attendance in the major US team sports

finds company with David Peel's and Dennis Thomas's paper exploring the effects of uncertainty of outcome on attendance at Soccer games in the UK. Peel and Thomas have pioneered the use of publicly available data on betting odds to proxy uncertainty of outcome – an approach that has become increasingly popular in the literature. Finally, the impact of televising sports on attendances is analysed in the US by, for example, John Seigfreid and Elton Hinshaw, while Mark Baimbridge, Sam Cameron and Peter Dawson address the impacts on soccer attendances in the UK. The latter paper is particularly interesting as it highlights the fact that the massive growth of sports funding initiated by BSkyB has led to a degree of trade-off between revenues from attendances and revenues from broadcasting. It has to be said that this trade-off only applies to off-weekend fixtures. The fact remains, however, that the need to subscribe to channels televising sports has reduced the overall TV audiences in the UK compared to the days when sports could be viewed freely at the point of consumption through the BBC and the independent television networks. This could have longer-term repercussions on preferences for the game.

Parts 3, 4 and 5 conclude Volume II by addressing broader themes in the economics of Sports. Part 3 provides five articles exploring the economic impact of Sports Teams and their facilities. Papers such as John Crompton's assess the Misapplication of Economic Impact Analysis, while others, such as that of Dennis Coates and Brad Humphrey explore the growth effects of sports franchises. The general conclusions are that sports facilities are not engines of economic growth. Part 4 provides eight articles that explore a miscellany of themes associated with college sports, which echo those explored in studies of professional sports. Thus Robert Brown examines cartel rents in college basketball recruitment, and Woodrow Eckard examines competitive balance in college football. Part 5 completes the growing miscellany of topics examined by drawing together nine papers that do not easily fit into previous categories, or do not, for example, focus on team sports which, as implied, above, is where the preponderance of attention is focussed. Topics as diverse as the incentive effects of golf tournaments, and the moral hazard effects of changes in sporting rules on athlete behaviour are analysed.

In general, therefore, the volumes do have a coherent structure. Their breadth of coverage means that they will undoubtedly be a valuable resource to both existing researchers in the area, and those wishing to get an overview of some of the main themes of sports economics for the first time. They begin with the sports league – or market for sports – as the hub of analysis and then explore both specific demand and supply-side issues, before concluding by looking at the current fringes of research. It is clear also that they include high quality papers. This said, there are a number of problems worth noting with the volumes.

The first of these concern the partitioning of the literature. The relatively short part 2 of Volume 1 could easily have been woven into part 1 where issues of an antitrust nature are already discussed. The ability of sports leagues to entertain the restrictive practices in the labour market, discussed above, for example are indicative of this and contrasts are often made with industry more generally. Likewise a number of papers that explore issues of race are not found in the discrimination section but in, say, the general labour market section or the section on college sports. One

should not be too critical here, however. Drawing boundaries between intrinsically interrelated material is always arbitrary to a degree.

Perhaps of more concern is the preponderance of labour market research compared to that of the demand for sports. There is a definite imbalance here and while the labour market literature has been innovative in its analysis as implied in the discussion above, then so too has the demand literature. In my own contribution to the literature (Downward & Dawson, 2000) over 30 articles on demand were critically discussed showing how researchers have attempted to measure uncertainty of outcome and other determinants of demand. It is important to remember in this regard that uncertainty of outcome is a key element of sports economics and it applies over a number of timescales such as individual matches, championship competition and a series of seasons. Peel and Thomas's contribution concerns the former only. The seminal analyses of the latter by Jennett (1984) and Borland (1987) are thus notable omissions. Likewise, the demand literature has a short-run and aggregate bias. This has tended to understate the impact of economics determinants of demand because of measurement issues. Longer-run studies of attendance demand employing time-series methods such as that by Simmons (1996) demonstrate this clearly.

It is interesting to note that these omissions are not US papers. Likewise it is implied in the discussions above that many of the studies focus primarily on US sports by US scholars. The imbalance thus possibly reflects both the editor's nationality and the origins of the literature. There is, however, a growing European literature that could have been referred to even allowing for the fact that much of it is quite recent. Interestingly, too a large section of this literature addresses the Bosman Ruling emanating from the European Court of Justice in 1995 (for example, Jeanreaneaud & Kesenne, 1999). The ruling modified the 'retain and transfer' system in, for example, soccer in a parallel fashion to the changes that took place in the US in the 1970s. Despite the fact that this important development is referred to in Zimbalist's introduction it only figures in passing in two papers by European contributions.

For readers of this journal, it is worth closing by noting that the literature predominantly draws upon neoclassical economics. Leagues are described in fully differentiable cost and revenue functions. Likewise rational economic agents dominate the theoretical analysis of the demand for sports, and labour market demand and supply. From my own point of view this is a limitation of the literature and it reflects both the US dominance in the literature and the stranglehold that neoclassical economics has on economic research. Indeed in Zimbalist's introduction this is implied by the celebration of sports as laboratory for researching and generating interest in students for this sort of analysis. Even when agents' behaviour is examined in some depth, as in the papers addressing the incentive effects of rule changes, the moral-hazard analysis is primarily asserted for empirical identification rather than modelled and, of course, remains wedded to rational choice theory.

There is a lacuna here. It seems clear to me that the cultural significance of sport, which is again noted by Zimbalist in his introduction, doesn't seem to be well served by such a restrictive framework. Indeed as implied above, most of the more recent papers are not theoretical innovations but refinements of technical detail or simply different examples of the same analysis. Yet, if one thinks carefully about the idea

of ‘spillover’ effects – i.e. of consumers’ mutually determined interest in the uncertainty of outcome of contests – one immediately spots problems with the assumption of independent preferences implied in rational choice theory. This is even more obvious when one ponders the likely interdependent nature of preferences of sports fans that openly subscribe to notions such as loyalty, identity and allegiance. The habit persistence of fans requires more convincing analysis. Issues such as these suggest that economic psychologists would find a rich seedbed for a foray into the area of sports economics. While the current volumes do collate a wide array of scholarly endeavour, I would welcome such efforts as radically enriching.

References

- Borland, J. (1987). The demand for Australian rules football. *The Economic Record*, 63(182), 220–230.
- Downward, P. M., & Dawson, A. (2000). *The economics of professional team sports*. London: Routledge.
- Jeanreaneaud, C., & Kesenne, S. (Eds.). (1999). *Competition Policy after the Bosman Case*. Antwerp: Standard Editions Limited.
- Jennett, N. (1984). Attendances uncertainty of outcome and policy in Scottish league football. *Scottish Journal of Political Economy*, 31(2), 175–197.
- Simmons, R. (1996). The demand for English league football: A club-level analysis. *Applied Economics*, 28(2), 139–155.

Paul Downward
Staffordshire University Business School, Leek Road
Stoke on Trent ST4 2DF, UK
E-mail address: p.m.downward@staffs.ac.uk