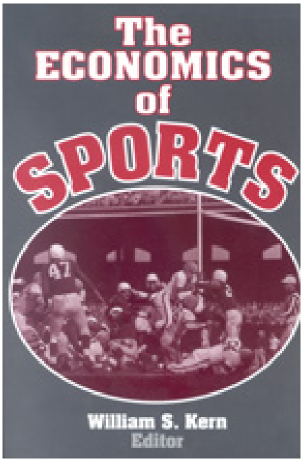
Introduction



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Open to the sports pages of your local newspaper today and you are likely to find that discussions of the economic aspects of sports occupy as much space as do the results of the games. As Americans' discretionary incomes have risen, so has their demand for sports, as both participants and spectators. As a consequence of this increase in demand, we are now witness to professional athletes commanding long-term contracts of over $100 million. Cities are bidding against one another to acquire professional sports franchises with offers of new stadiums costing upwards of $500 million. Spectators are willing to pay "street prices" as high as $3,200 for tickets to the Super Bowl and $4,000 for tickets to college basketball's "Final Four." And professional sports owners and players' unions perennially talk about the possibility of strikes to resolve their differences over dividing up the multibillion dollar sports revenue pie. Clearly, sports has become "big business."

As the sports industry has grown, it has attracted the attention of economists, and sports economics is now a growing subfield within the economics profession. The organization of the sports leagues has been fertile ground for economists interested in industrial organization questions. The labor markets for professional athletes have been of interest to labor economists, given the abundance of statistics related to player performance and productivity and the unique features of these labor markets such as the National Basketball Association's (NBA) salary cap. The development of free agency in sports, the behavior of the National Collegiate Athletic Association in regulating collegiate sports, and the growing use of "personal seat licenses" by National Football League (NFL) teams have provided additional opportunities to observe and measure the effects of monopsony power, the behavior of cartels, and the practice of price discrimination.

Sports economics is also finding its way into the college classroom. Economists have found that sports is a useful medium for teaching economics, given the natural interest of many students in sports issues. The use of economic principles to help students understand the economic issues in sports provides evidence to students that learning economics can be both useful and fun. Thus, a small but growing number of colleges and universities now offer courses on the economics of sports.

The papers presented in this volume examine a number of contemporary economic issues in the world of sports. The lecture series that produced these papers was held at Western Michigan University during the 1998–1999 school year. The theme of the lecture series and this volume—"Economics of Sports: Winners and Losers"—is, of course, a play on words because it describes not only the results for the players of the game, but also the issues that we hoped the papers would explore. Though economists stress the desirability of outcomes that will improve the position of everyone, we are also aware that is not always the case. Indeed, many sports fans feel that they increasingly have come out losers as ticket prices have risen and they feel alienated from players who seem more interested in the money than the game. Cities that are vying to attract or retain sports franchises believe they will be winners in the game of urban development and job creation, but is that really the case? In the aftermath of the recent labor management struggles that have taken place in baseball and basketball, one wonders whether either side won!

The volume begins with a paper by Rodney Fort on the consequences of monopoly in professional sports. He argues that much of what sports fans complain about in pro sports—high ticket prices, high player salaries, and public subsidies for stadium construction—are predictable consequences of the monopoly power wielded by professional sports leagues. The monopoly power of sports leagues, he says, stems from the special legal treatment which sports leagues have been granted. The consequence of their special legal status is that leagues can restrict the supply of sports franchises, manage themselves as cartels, and stifle competition from competing sports leagues. The answer to this problem, Fort argues, is to apply a dose of competition to professional sports. He endorses a remedy for sports monopolies first offered by Ira Horowitz and Roger Noll—breaking up pro sports leagues into competing leagues.

One of the most hotly debated contemporary sports issues is the use of tax dollars by cities attempting to attract and retain professional sports franchises. Fort's paper reveals that this practice is a consequence of the monopoly power wielded by sports leagues, whose supply of franchises is limited relative to cities' demands. Thus, cities find that a new stadium, paid for with tax dollars, is the price to retain or attract a pro sports team. The stadium building boom also results from the belief that sports franchises are "hotbeds" of urban development that will generate jobs and growth. But is that really the case?

Professor Robert Baade is a pioneer in determining the impact of sports teams and stadiums on regional economies. In previous studies, Baade and others have found that the impact on regional growth and employment was negligible at best. In the paper presented here, Baade investigates the impact of sports facilities on neighborhood economies as well as their urban renewal strategy. Cities are building stadiums in the core city in an attempt to bring economic activity back to areas abandoned during the last several decades as population and economic activity have migrated to the suburbs. This has been a strategy followed by Cleveland, Atlanta, and Nashville where recently constructed stadiums were placed near the central business district, and in Detroit, where a new stadium for the Detroit Tigers was recently completed.

As a case study, Baade uses Seattle, which is constructing two new stadiums for the Mariners and Seahawks in close proximity to its former stadium, the Kingdome. Baade estimates the economic impact that the Kingdome's presence has had on the surrounding neighborhood, known as Pioneer Square.

If sports teams and new facilities generate negligible net increases in regional economic activity, and if, as Baade contends, they also do little to invigorate central business districts, then who are the primary beneficiaries of the public subsidies to sports franchises? This issue is addressed in the paper by John Siegfried and Timothy Peterson. They point out that in discussing stadium construction and team relocation, the public has focused on financing issues while economists have largely focused on efficiency issues. However, the equity issue remains largely unexamined. Siegfried and Peterson note that although some have complained that publicly financed stadiums amount "to constructing playgrounds for the rich," there is little objective evidence about the income distribution effects of these projects. They propose to remedy this by considering who bears the burden of the costs of new stadium construction and who receives the benefits.

The underlying theme of both Richard Sheehan's and Andrew Zimbalist's papers is the difficulty of maintaining competitive balance in sports. Although fans' enthusiasm is a function of the competitiveness of the leagues, gross mismatches in talent create dull contests which are not in the long-run interest of the leagues. However, success on the playing field is largely a result of a team's ability to acquire the most talented players and management's ability to provide the best facilities. Success is a function of the economic resources available to the individual teams, and these resources are often grossly unequal. Zimbalist points out that some teams in professional sports are located in cities that are eight times larger than other cities in the league. Major League Baseball is an obvious example of this problem. Small-market cities are finding it almost impossible to compete for talent with teams located in large markets.

Richard Sheehan's paper demonstrates that competitive balance is an issue in collegiate sports. He shows that, in contrast to the popular view of major collegiate sports, most college sports programs are not profitable. He considers the connection between the abilities of sports teams to generate revenues and their on-field success: in other words, is it possible to buy victories? And, will winning more make a school's sports programs more profitable? Sheehan argues that athletic finances and athletic success are intimately related. The ability to generate large revenues raises the likelihood of winning. However, increased winning often translates into small revenue gains. Sheehan thus argues that the "have nots" of college athletics are not likely to join the "haves" by investing in their college sports programs. A relatively small number of sports programs generate large sums of money and those programs perennially enjoy the bulk of on-field success.

Andrew Zimbalist's paper discusses the economic issues involved in the 1998–1999 NBA lockout. Zimbalist, who was a consultant to the NBA Player's Association during the negotiations, argues that there are several strategies that leagues might employ to preserve competitive balance. These include revenue sharing, skewing the reverse order of drafting of players to give poorer teams greater access to talent, artificially restricting the growth of players' salaries, and compelling league divestiture to engender competition.

The NBA owners claimed that the salary-cap restrictions they wished to impose were necessary to restore competitive balance by ensuring the survival of financially weak teams, but Zimbalist argues that this was mere rhetoric. Few, if any, teams were actually losing money, and those that were would soon have new arenas and more revenue from television. In addition, the owners attempted in both 1995 and 1998 to eliminate the Larry Bird exception, which was a device that helped to maintain competitive balance. The owners' argument, he concludes, was just cover for their attempt to raise profits by holding down the growth of salaries.

Zimbalist suggests that if the NBA owners are truly serious about the competitive balance problem, they should pursue the NFL's strategy of revenue sharing, but that faces serious obstacles in both basketball and baseball. The best solution, he argues, is one also suggested by Fort: foster competition by breaking up the existing leagues and creating new ones. With two leagues in each sport, large-market teams would have to share their market with teams from the competing leagues, and cities would not have to compete against one another by offering new stadiums to attract teams.

The volume concludes with a paper by Lawrence Kahn surveying the literature on the incidence of racial discrimination in pro sports with respect to salaries, hiring, retention, positional segregation, and customer prejudice. As Kahn points out, the world of sports has been a particularly rich environment in which to study discrimination because of the abundance of information related to player race, compensation, and productivity. Kahn's survey of the literature demonstrates that although the extent of discrimination appears to have declined over time, some evidence that discrimination in hiring, positional discrimination, and retention stemming from racial preferences of sports fans still lingers.

The six essays presented here offer a wide perspective on current issues in the field of sports economics from a group of scholars who have made significant contributions to this emerging field. They should certainly be worthwhile reading for anyone interested in the impact of sports teams and stadiums on urban development and in the attempts by professional and collegiate sports leagues to maintain competitive balance. We can only hope that some of the insights offered here will ultimately come to bear upon the decisions that the leagues and governments involved in these issues must make.