Management, competition and efficiency in professional sports leagues[*]

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Abstract: The competitive situation of professional sports leagues and the clubs organized within has been one of the major concerns in the literature of sports economics. This article deals with competition in professional sports leagues in Europe and America. It assumes that the relegation rule, which is in effect in most of the European professional sports leagues, forces clubs to more managerial efficiency, because it is an additional element of competition on the club level.

1. Introduction

While sports clubs in professional American leagues such as Major League Baseball (MLB), the National Basketball Association (NBA), the National Football League (NFL) or the National Hockey League (NHL) are traditionally in the hands of owners with concrete property rights, European sports clubs were originally associations with more or less social tasks. Ownership and the right to retain profits were diluted. This is especially true in Spain and Germany, where most of them still are without an explicit will to make and retain profits.[1] But commercialisation is going ahead in European sports as well. English, Danish, Dutch and Italian clubs are changing their legal form from private associations into profit-oriented stock corporations, and their German counterparts are currently following suit. In many cases this provides an advantage in financial terms resulting in a better sportive basis. As a result, most of the clubs might feel forced to follow suit and go public. When clubs in Europe act more and more like profit-maximizing corporations, other problems could follow. For example, profit-maximizing clubs could demand market conditions which provide them with simpler and safer planning with reference to long-term investments, especially human capital investments in players. One of these demands could be the limitation or abolition of the relegation rule, which endangers club investments in case of relegation.

In looking at professional sports leagues all over world, two kinds of organisation forms can be distinguished:

a.) The "European model" with a league hierarchy and the relegation rule which is connected to the possibility of promotion for minor league clubs. Sports leagues are organized in ascending tiers. For example the English Premier League is above the First Division, which is itself above the Second Division. The right to take part results mainly from sporting performance. A team in the English First Division that wants to take part in Premier League has to be promoted into the Premier League by winning the First Division one season, in order to be allowed to take part in the Premier League the next year. Each year the teams in a major league with the worst performance are substituted for the best teams in the next lowest league. Similar criteria (which could be called qualification rather than relegation and promotion) are used for European contests like the UEFA-Cup or the UEFA Champions League. Qualification for the UEFA Champions League does not necessarily result from becoming a champion of a national league, but rather from being among the first teams in this league. In Germany, the first two teams of a soccer-Bundesliga season are allowed to take part in the UEFA Champions League. The third placed team has the right to play another qualification round to take part in the UEFA Champions League. If it loses, it will take part in the UEFA-Cup, like the fourth and fifth team of the last Bundesliga season, as well as the national cup winner.

b.) The “American model”, where club owners as a partnership grant the right to take part in the league by selling franchise rights for a substantial fee (Franck 1995).[2] If somebody wants to become an owner of a major league club, all other club owners have to agree. In earlier times member teams even “had veto power over entry into their franchise area by other league teams” (Fort/Quirk 1995), which since the 1980s has gradually been weakened.

In European sports, especially in professional soccer, big market clubs are currently trying to form a Europe-wide league, which would practically grant them the right to take part in that league.[3] Eighteen strong drawing soccer clubs in Europe are organized in a group called G 14 (four members recently joined the organization), which consists of clubs like Ajax Amsterdam, Manchester United, Real Madrid and AC Milan. Considering the history of the UEFA Champions League and their origin – the former European Cup of National Champions – it seems like big market clubs are intensifying their efforts to form a league more similar to the American model without relegation and by granting more or less stable rights to take part in these leagues. In economic terms this can be seen as building barriers to entry into this special market (the market for highest level soccer in Europe). These barriers to entry are built in order to prevent small market clubs from entering the market. Until now small market clubs in Europe still have the possibility to enter the market for first class soccer by way of qualification and promotion. But in upcoming years it seems likely that big market clubs would attempt to build higher barriers to entry for small market clubs and form leagues following the American example of organizing leagues. The UEFA Champions League is just the first step into this direction (see also Hoehn/Szymanski 1999).

In recent literature some authors argue the American method of organizing leagues with granted franchise rights is superior to the European relegation rule. Rights to take part were allocated more efficiently and problems of investing into clubs less (Dietl/Franck 2000). Other economists argue that the "outcome is identical – fans willing to support the topmost level of play financially, enjoy that premiere level of competition whether it happens under European-style relegation and promotion or under the North American style of team movement and expansion" (Fort 2000). A third line of argumentation claims "that the institution of promotion and relegation tends to raise consumer welfare by increasing effective competition among teams" (Szymanski/Ross 2000). The first two lines of argumentation seem to be contestable, because aspects of constitutional politics[4], of managerial efficiency and problems of forming cartels and of monopoly/market power have to be considered, too. This paper supports the latter view. Different methods of promoting competition within professional sports leagues have been proposed. While some authors propose a treatment under general antitrust legislation or regulation (Weimann 1997, Klodt 1998), others refer to the idea of breaking up the existing leagues into a number of more or less independent leagues (Quirk/Fort 1999)[5] or to the implementation of a system with relegation and promotion (Szymanski/Ross 2000, Noll 2002).

The intention of this paper is to show that the efficiency-enhancing effects of stronger competition are sometimes underestimated. The enhanced (potential) competition among clubs results from the relegation rule with its permanent danger (and opportunity) for clubs of losing (or gaining) a market. The relegation rule does not only force clubs to work more efficiently, but also limits their market power, with positive effects for fans resulting in a greater welfare in general.[6]

2. Basic premises

2.1 Efficiency

The ongoing commercialisation of sports in Europe leads on to the question whether sport clubs use their resources efficiently. In order to answer the question whether the European method of relegation or the American method of granting franchise rights is superior with respect to efficiency, it must first be established what is meant by efficiency. Efficiency can either be looked at from the perspective of the individual firm or the economy as a whole. In a world of scarcity, efficiency means to achieve a known goal as cheaply as possible or to achieve as much as possible with a given amount of inputs of resources. Wasting resources is then impossible. Consumers of sporting events are the supporters of clubs or – in more general terms - a specific sport. Efficient production of sports games or a championship race is especially relevant for supporters, because they are providing resources by buying merchandising products, paying for tickets and television fees or paying a higher price for advertised products. But it is not only the supporters who are interested in the efficient production of sports games. When clubs or a league do not work efficiently, resources are wasted. These resources are lost to other (effective) ways of production. For example, if a big market basketball club does not work efficiently, it does nevertheless use resources. These resources could be used effectively by a soccer club in the same city or by a totally different firm for production. So if resources are not used efficiently by a club, a misallocation follows, which causes negative effects for all consumers in the economy and not only for sports fans. It has to be mentioned that neither profits nor high salaries are indicators of efficient production, because both could be possible with inefficient production. Indeed, profits and relatively high salaries sometimes indicate an inefficient production of goods or services. This is the case when e. g. a "lazy monopolist" does not work as hard a he could to limit his costs.

2.2 Constitutional politics, market power and antitrust policy

Often recommendations for organizing professional sports leagues in Europe are flawed by the absence of a statement of purpose for these recommendations. Implicitly, however, it is said that profitability, its maintenance and improvement, are the actual purpose of some papers. For economic recommendations the profit situation should not be the reference point. Rather it is the rules of constitutional politics within an economy that have to be regarded and followed by professional sports clubs as well, which often claim special treatment because their market is somehow different. For economists this is not necessarily persuasive: Differences are usually smaller than claimed. Clubs propose these differences in order to gain special advantages (privileges), which can be seen as a sort of rent seeking. Economic recommendations for the industry of professional sports should therefore be oriented to rules that are valid for all other firms in the economic environment, as otherwise other segments of an economy could claim special treatment and sector specific privileges, too.

The industry of professional sport clubs can be characterized well in economic terms: Major leagues represent a natural monopoly, as clubs are forming a near text book example of a cartel (Fort/Quirk 1995) and externalities between these clubs occur. Taking this into consideration, aspects of competition and the competitive situation within this industry are an important concern in economic literature. Competition is the central element of a free-market economy, which makes antitrust issues a core problem for economic policy. When demand for products is caused by superior performance, competition has fulfilled one of its functions. A better supply for consumers follows. The purpose of antitrust policy is therefore to prevent firms from gaining market power which results from barriers to entry into markets. In this sense constitutional politics seeks to destroy or prevent barriers to entry into every market in a free-market economy.

This is even more the case in professional sport leagues, because they are – as was mentioned earlier in this article - a natural monopoly resulting from the fact that only one team can become the best team in a specific area and sport (Neale 1964). Being a monopoly firm does not necessarily mean that this firm has market power. Three ways of implementing competitive aspects into a market characterized by a natural monopoly can be distinguished (Braeutigam 1989):

- (Chamberlinian) monopolistic competition
- competition for a market (Demsetz competition)
- contestability: firms that do not operate efficiently might find themselves driven from the market by other firms if market entry is free.

All three ways of imposing competitive aspects into a natural monopoly market of professional sports leagues have to be taken into account when discussing market power of or in professional sports leagues. Many forms of monopolistic competition could be detected in the leisure industry. The appearance of rival leagues is a way of competing for a market. But competition for the market has some problems in relation to professional sports leagues. In Europe there have been no serious attempts by new leagues to break into the league market. It seems that this market is less contestable in Europe than in America, resulting from the integrated hierarchy structure of European leagues in connection with the monopoly character of league-operating associations. Even though some ways of potential competition can be detected, in general it is argued that the natural monopoly sports league remains at least some market power (Weimann 1997, Quirk/Fort 1999). This is strongly indicated by the fact that successful market entries of new leagues are rare and were only partly successful, meaning that the old monopoly league opened partly for new clubs (Quirk/Fort 1992). Competition on the league level is therefore hard to implement, especially in Europe. For that reason competition has to be implemented, protected and supported on the single-club level by making the position of clubs in a monopoly league contestable. If there is competition on the single-club level, it could lead to increased efficiency and a surplus for consumers, in this case the fans. The concept of contestability relies on the abolishment of barriers to entry. This means that markets have to be opened by the reduction of barriers to entry into the market. Then competition can work as an instrument of self-control in a free-market economy.

The role of the league as a monopoly leads to market power for single clubs, because market entry from outside is costly. In America the barriers to entry occur as a franchise right that can only be bought with the agreement all the other club owners in the league. In Europe barriers to entry have the form of the relegation system, which on the one hand limits the possibilities to enter the market, but on the other hand potentially opens the market for all clubs that are currently not in the league. The danger of relegation and the opportunity of promotion put competitive pressure upon clubs through the danger of losing a market and the opportunity of gaining a new market, e. g. the market for first-class soccer. There is therefore one additional element of competition on the club level in European sports than there is in America through the presence of the relegation rule.[7] Profit arguments should not be considered and followed when talking about efficiency in a free-market economy, or other industries could claim special treatment too, which would be a serious attempt to change constitutional politics within the economy as whole.

3. Problems of over-investment

In championship races in sports leagues it is the relative result compared to the competing teams that is important for a sports club. This situation might lead to a rat race, which could cause to high investments by clubs ("over-investing hypothesis", Dietl/Franck 2000). Some argue that rules from American sports leagues such as the salary cap prevent clubs from investing overblown sums, especially in players. Salary caps[8] limit the amount of paid player salaries. Other instruments of distribution in professional sports leagues such as drafts or revenue sharing are said to limit investment in player ability as well (Dietl/Franck 2000).

Because of their limiting effect on player investments, the implementation of such instruments has also been proposed for European sports leagues. On the other hand, one must consider the effects these instruments have on the relationship between employees (players) and employers (clubs). In a market economy this would be special treatment. In other industries the uproar of unions and media would be tremendous. Just imagine the effects if German, Italian or American car manufacturers announced they would have to limit the total amount paid to their workers! Players would lose income that would be shifted to clubs, and consumers would not profit. Other reactions to a rat race such as a tax on total expenses of clubs (Becker 1998) could have a greater effect and are conform with a free-market economy. Furthermore, free-rider behaviour, as will be explained later in this article, could lead to a contrary and therefore levelling effect.

4. Free-rider problems

Free-rider problems typically occur when property rights are not sufficiently allocated. This generates externalities, and in the extreme case, pure public goods exist. Then producers of public goods or positive externalities are not fully compensated for their production. Consumers of public goods profit from this externality because they are not obliged to carry production costs. In professional team sports the danger of free-riding results from external effects that teams produce for each other. On the one hand this externality exists because a single team cannot play any sports alone but always needs other teams to be compared with. This external effect is strengthened due to the fact that a league combines a number of matches and produces the championship. This externality can easy be illustrated by an example: Even a club like Spanish soccer giant Real Madrid has to appreciate that all the other clubs in the Spanish Priméra Division are playing against Real, because without them Real Madrid would not have won a single title or even played a single match. On the other hand, externalities are caused by championship races, which will face more demand the closer the race is. It is not terribly interesting to watch underachieving or weak clubs playing against strong clubs. When they lose week after week only few spectators are going to watch these debacles and therefore demand will lessen, which means that even high-performance clubs will face a slack in demand and financial losses. It has to be mentioned that a strong dominance causes this negative externality as much as underachieving clubs. Interest and demand decline if clubs dominate a league so much that their success is assured.

Weak-drawing clubs could have an incentive to rely on the investments of the other competing teams (“free-rider hypothesis”, Dietl/Franck 2000). They would save money and profit from the investments of their competitors. This could lead to a possible under-investment by some clubs which would be a misallocation of resources. But in European sports leagues there is an institution that acts against this incentive to under invest in playing strength, and that is the relegation system (Dietl/Franck 2000). At the end of a season low investments could possibly lead to a forced exit out of the market which works as a negative sanction for the clubs.

With regard to the over as well as the under-investing hypothesis it should be mentioned that successful profit maximizing firms are characterized by the fact that they neither invest too much nor too little, but exactly the right amount. It has to be expected that clubs with well-defined property rights and an explicit will to maximize profits are better prepared to solve investment problems than associations which have no or less interest in maximizing profits. Entrepreneurs usually have to cope with managerial and market risks, and in this respect there is nothing special at all about the sports business. Managers have to handle these risks if they want to take advantage opportunities (management of risks and chances). If team-sport industry clubs are allowed to avoid market-economy processes because of some (claimed) special circumstances in their industry, this would mean a privilege for the firms in this industry which could not be justified under aspects of constitutional politics.

5. Local allocation of clubs

In professional team sports some argue that a system with relegation leads to an inefficient allocation of the rights to take part in a league, even though the relegation system has an implicit and permanent way of opening the league for new clubs (Franck 1995). Inefficient allocation may result from the potential for small market clubs with low income to play together in the same league with big market clubs and high income potential (Dietl/Franck 2000). It would therefore be unavoidable to impose distribution mechanisms in these leagues to maintain uncertainty of outcome, which is considered to be one of the significant factors for the demand of sporting events (Cairns e. a. 1986). In the German Bundesliga, for example, for a time Berlin had no club playing in this major league, while some small market clubs such as SC Freiburg or

1. FC Kaiserslautern became serious contenders for the German championship. This situation is considered to be inefficient, because Berlin has more resources than Freiburg or Kaiserslautern have (Franck 1995, Dietl/Franck 2000). Would a trade of franchise rights be possible like it is in North American professional sports leagues, this inefficiency would be avoided by creating a market for franchise rights.

The problem is that it is not the aim to create a market for ***sportsteams*** (franchise rights) but a market for ***ballgames***. This (relevant) market for ballgames is well developed in Europe as well as in North America. The difference results from the relegation system, because it causes potential competition even between clubs that do not play in the same league.[9] On the one hand there are insiders, clubs that are currently playing in a specific sports league. On the other hand there are outsiders and potential incumbents, clubs that are longing to break into that market through promotion into the higher league.[10] The position of clubs in European sports leagues is therefore more contestable than the position of clubs in the MLB, NBA, NFL or NHL. Clubs all over Europe have the possibility of combining resources (the amount fans are willing to pay) in a new and experimental way to be successful and be promoted into a higher league. On the highest national level they could qualify for first-class national sports, which would give them the further possibility of qualifying for competitions on the European level, e. g. the UEFA Champions League. European clubs do not necessarily need a big city and rich market to try to enter the market for first class professional sports, and on occasion small market clubs even win titles. The opportunity to enter this market comes from the relegation system. It can be a long road from the minor into the major leagues, which means that the relegation system works as a barrier to entry as well, but principally even clubs from small villages have the chance to play in a major league, as well as clubs with big markets. Moreover, a big market could have several clubs playing in a league. For a time, Munich and Madrid both had three clubs in the Bundesliga and Priméra Division respectively. Milan and Rome even have two teams which won titles. The London-based clubs in the Premier League are almost innumerable. In the American system of granting franchise rights, this is only partially true.

It should also be mentioned that it is not only the number of inhabitants of a city which determines a "big market". Other factors, especially the preferences of the inhabitants play a role as well. In other words, many potential spectators do not mean that these potential spectators become real spectators in the end. Maybe inhabitants of a specific city do not have any interest in a specific sport or simply do not like a specific club from their town. An example might illustrate this. Berlin and Toronto are cities of comparable size and economic background. But while Berlin is definitely a big market for soccer, Toronto is not. Toronto however is a big market for baseball, basketball and especially hockey. This simply reflects the different preferences of Torontonians and Berliners. To find out where and when interest in soccer or basketball is currently running highest is one of functions of the market and of competition. The relevant market for this is not the market for sport clubs but the market for sporting events. This market is functional in Europe as well as in America. Clubs are under higher competitive pressure in Europe. To determine where interest in sporting games is bigger and where club managers are able to combine resources most efficiently without the market would be pretence of knowledge. This would prove fatal for small-market clubs, their supporters and for all fans of sporting games who are not interested in profitable, but in good and enjoyable games. Generating profits is not necessarily a sign for efficient management, but can result from barriers to entry and related market power.[11]

6. Outcomes

While it is true that the differences do not outweigh the similarities between European and North American sports (Fort 2000), it cannot be said that there are no differences at all. The relegation rule has its impact on allocation of sport clubs in Europe. The statement that the allocation of teams "is all driven by fan willingness to pay in the first place" (Fort 2000) reflects only one side of the problem. The resources fans are willing to commit only partly influence the allocation of professional sports clubs. What is almost as important as (potential) resources is the ability of a club's management to use these resources effectively and efficiently. If big market clubs were managerially efficient, small market clubs would not have the chance to overtake them. But – one might even say thank goodness – this does not always happen, and small market clubs are able to play an important role in professional sports leagues in Europe, because they could compensate their disadvantage through better management. This is possible due to the relegation system.

Managerial efficiency is also the reason why one big market club is better than the other.[12] Evidence can be found in the German Bundesliga: In the late 1970s and early 1980s the Hamburg-based club HSV was the most successful club in Germany and, together with FC Liverpool, the best club in Europe. Its resources are at least as big as Munich's, where archrival FC Bayern is located, and tradition and fan support was comparable by that time. But HSV did not use its advantage from the early 1980s and its huge potential coming from one of the richest regions in Europe. Management mistakes were the reason for a slow but continual decline in sporting success and reputation. Today HSV is only a mediocre, underachieving club in the Bundesliga, while FC Bayern is consistently successful in Germany as well as in Europe. This different outcome can only be explained by different management abilities.

Situations where small market teams such as SC Freiburg, 1. FC Kaiserslautern, AC Chievo Verona or Celta de Vigo have a legitimate chance of winning major titles while some big markets do not even have a team in a major league shows the efficiency-enhancing effects of increased (potential) competition among clubs. Small market teams which are successful in a major league prove that they are capable of working with less resources more efficiently than clubs in big markets, which do not manage to convert their huge resources into success. This is not inefficient. On the contrary: Taking away the pressure of potential competition from big market teams allows them to use their resources in an inefficient manner. Some teams in American sports leagues perform poorly for years on end (e. g. Tampa Bay Lightning in the NHL or the Los Angeles Clippers in the NBA), and consumers (fans) are more or less annoyed by these poor performances. European professional team sports has developed an institution which sanctions these misallocation of resources, namely the driving of the team from the market by relegation. This is an instrument of negative sanctions which has a positive counterpart. Successful teams are awarded the higher, more valuable market. Two functions of competition are used this way: On the one hand competition works as an instrument to limit power, on the other hand the market can be used as an instrument of discovery (Hayek 1968).

Furthermore, it has to be mentioned that relegation into a second class league does not necessarily have bad effects for the relegated club. Many clubs use the seasons in lower playing divisions to recover in their economic condition and in their sporting performances. Evidence can be found again in the German Bundesliga. The successful team of Werder Bremen, which won five national and one European title in the late eighties and early nineties, was born when the team was relegated from the first division into second division and was then promoted back into the Bundesliga. Before that time Werder Bremen was only a mediocre team in the Bundesliga, which did not even think about winning a title. When 1. FC Kaiserslautern was relegated from Bundesliga in 1996 into the second German division it seemed to motivate the club, fans and region more than ever before, which led to a comeback in German first-class soccer and to the championship in 1998. Even strong drawing clubs like Hertha Berlin, Munich 1860 or Schalke 04 had to review their management abilities for a while in the German second division before becoming again a successful team in the first division. These clubs were obviously neither strategically nor operatively capable of using their doubtless enormous potential to become a sufficient first division team. Their management weakness was detected and sanctioned by repeated relegations. The pressure of competition caused by relegation revealed their inefficient club management again and again. Only when these clubs introduced a leadership capable of handling the market problems of Bundesliga soccer did they manage to stay in the German first division. The power of competition therefore led to an efficient use of resources, which would not have been the case if relegation and, in this sense, the opening of a market would not have been in effect. Competition by relegation works in the market of monopoly leagues as an instrument of self-control by sanctioning less efficient clubs.

A systematic problem of competitive balance within a league to save the uncertainty of outcome (Dietl/Franck 2000) does not necessarily result from the relegation rule, because small-market potential can be compensated by bigger management abilities. In fact it has not yet been shown that the American franchise system leads to more balanced sportive results than the European relegation system,[13] an institution that explicitly binds market entry to sporting criteria and thus leads per se to a permanent equalisation of playing strength.[14][15]

7. Conclusions

Under the aspect of profitability the American system of granting franchise rights for owning an major league sports club is superior to the European way of relegation and promotion between leagues in ascending tiers. But this advantage is offset through the loss of the economic principle of open markets. That enables major league clubs to earn monopoly rents und leads to their profitability. Consumers have to pay for this profitability, because they pay more for a worse product. Who would have preferred a Berlin soccer team in the Bundesliga, when only ticket prices were appropriate for first division soccer but not the performance itself, which was only mediocre? Instead fans would have lost the surprising and refreshing soccer of clubs like SC Freiburg. A Club like FC Bayern Munich may never have become champion in the Bundesliga or even played a single match in it, because it was not among the original 16 teams which started into the first Bundesliga season in 1963. Instead its Munich rivals TSV Munich 1860 were granted a starting right in the 1963/1964 Bundesliga season. It is still possible that situations like this occur in the future, and the relegation system is exactly the institution which guarantees that efficient clubs will be able to play in a major league. Therefore the relegation system could be a way of preventing market power in the major American leagues like MLB, NBA, NFL or NHL as well by partly opening the market partially.[16]

Inefficiencies cannot be detected when firms with a small basis of resources make a lot out of these resources. And it is not inefficient when big market teams, which make less than optimal use of their huge resources are sanctioned by being driven away from a market. On the contrary: Potential competition causes discipline and requires an efficient club management organisation, so used resources are combined effectively. Relegation is connected to the permanent risk for a club of being driven from a market. The renunciation of the relegation institution in professional sports leagues would mean to give way to managerial laziness, which might be called planning security. This institution is a mechanism of sanctioning not only free-rider behaviour but also inefficient club management. Small market clubs like AC Chievo Verona, Celta de Vigo, 1. FC Kaiserslautern or SC Freiburg and all fans of surprising, aggresive and refreshing "overachievers" in sports will be appreciative if antitrust legislation protects the relegation rule in Europe. It would be a part of an open market economy. And it might bring more excitement into American professional sports leagues and limit the market power of these leagues and the clubs playing within. Relegation is (the most important) element of competition in professional sports leagues.

Notes:

[1]For the discussion about profit vs. utility maximizing behaviour see e. g. Fort (2000), 439 ff., Hoehn/Szymanski (1999), 219, Heinemann (1987), 239 ff., Sloane (1971), Cairns e.a. (1986), 5 ff.

[2] It is called an "American model", even though in some cases, e. g. US college football, there are rules similar to the relegation rule in effect (see Fort (2000), 436 f.). See also Dietl/Franck (2000), 1170.

[3] In European basketball this development appears as well. German hockey abolished the relegation rule a few years ago but is currently seeking to reintroduce it.

[4] The term „constitutional politics“ is a translation of the German word “*Ordnungspolitik*” (politics of institutional framing) as it is used in Vanberg (1999), 10. There it is mentioned that the task of constitutional politics is “to identify and implement rules which serve the consensual interests of the members of a community” and “to create conditions which generate sufficient interest in complying with these rules.”

[5] See also Fort/Quirk (1995), 1297.

[6] The argumentation presented in this article does not even consider that “league rules on franchise rights and expansion act to subsidize weak-drawing teams by strengthening their bargaining power with local governments, through league decisions to leave unoccupied localities that can profitably support a team. The payoffs are subsidized stadium and arena rental agreements” (Fort/Quirk (1995), 1296), which causes another, additional economic inefficiency and could at least be partly avoided by the relegation rule.

[7] In contrast it seems that contestability of the league – competition for the market - is not as strong as it is in America. The cause could be the organization of integrated hierarchy over leagues, which does not leave enough room for competing new leagues. As mentioned earlier, new leagues in American sports history have not won over the old ones but reached an opening of the market of the club level as in the National Hockey League in the seventies (see e. g. Fort/Quirk (1995), 1292 f.). In European sports history have been few serious attempts to contest an existing league.

[8] Vrooman (1995) calls the salary cap a payroll cap.

[9]Or as Szymanski/Ross (2000), 3 put it: The “institution of promotion and relegation tends to raise consumer welfare by increasing effective competition among the teams in a league”, but the relegation system does not only implement competition between teams in a league, but also between teams in major and minor leagues.

[10] While this is true for most of the clubs in European sports, it is not necessarily true for all European clubs. The author knows about a club, playing in the second German handball division, which does not want to promote into first division because of the financial risks connected with promotion.

[11] Exactly this inefficiency occured in governmental protected monopolies, e. g. in the telecommunication and public utility sector before these industries were deregulated.

[12] It has to be noted that if only fan willingness to support its clubs determines sporting outcome, final standings in a league would be same as long as this willingness does not change.

[13] See Drewes (2001), 111 ff. Empirically he finds that the European soccer leagues are less competitive balanced than the MLB, as competitive as the NHL and more competitive balanced than the NBA.

[14]

[15] Noll (2002), 174 f. finds an ambiguous effect of the relegation system.

[16] Szymanski/Ross (2000) and Noll (2002) propose ways of implementing the relegation system into American leagues.

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