Introduction

The essays in this collection span a decade and a half of exciting action in the sports industry. They represent a selection of op-eds and journalistic pieces I have written for numerous newspapers and magazines.[1]

While the examples change, the environments mutate, and the dollars grow, the basic dilemmas and dynamics of the sports industry remain very much the same. Dollar growth is the easy part to document. Between 1990 and 2004, Major League Baseball's gross revenues increased roughly from $1.3 billion to $4.3 billion (annual growth rate of 8.7 percent), the National Basketball Association's revenues increased from $843 million to $2.9 billion (annual rate of 10.1 percent), the National Football League's revenues rose from $1.3 billion to $5.3 billion (annual rate of 11.4 percent), and the National Hockey League's revenues grew from $518 million to $2.2 billion (annual rate of 11.9 percent).[2] NASCAR and golf witnessed even more rapid growth.

Elucidating the underlying economic dynamic of team sports leagues is more challenging. Team sports leagues are different from other industries in one fundamental way. The teams (companies) that compete against each other on the playing field must also cooperate with each other to a certain degree as businesses. General Motors can produce cars by itself; it does not need Chrysler. The Yankees, however, cannot play a game of baseball without another team. In the team sports industry, then, it takes at least two companies to produce the desired output.

Moreover, the two teams must be sufficiently balanced so that the outcome of each game is uncertain. In practice, of course, there will be many more than two teams in each league, because it is not only the outcome of each game that

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[1]The essays have been edited slightly to avoid redundancy, to provide greater clarity, and occasionally to update material. One entry comes from testimony I gave before the U.S. Congress.

[2]These figures are all estimates from *Financial World* and *Forbes.* They are given here only to suggest the general magnitude of growth. Major League Baseball's figures represent fourteen years of growth, while the other three sports represent thirteen years. Hockey's faster growth rate in large measure results from the more rapid expansion in the number of its franchises (from twenty-one to thirty teams) over the period. Adding the four sports together, total estimated revenues grew from $4 billion in 1990 to $14.8 billion in 2004, for a 10.3 percent annual growth rate.

is at stake, but the outcome of the competitive season, as well. A league that functions effectively will also be one where the outcome of each season is uncertain and where the fans in most cities believe that their team has a reasonable chance of making it to post-season competition.

The car industry could function effectively if Toyota sold 50 percent of the cars, GM sold 30 percent, and Chrysler and Ford each sold 10 percent. That is, it would be OK, other things equal, if Toyota dominated the other companies year after year. Such an outcome, however, would not lead to a very successful sports league.

If teams in a sports league were not allowed to cooperate economically, then there would be a very strong tendency for big-market teams to dominate. A team in a market of 8 million people would be able to generate several times more revenue than a team in a market with 1 million people. Yet the two teams would go to the same players' market to sign up talent. While there is not a perfect correlation between team payroll and performance, having a higher payroll certainly increases a team's chances of winning.

These market imbalances are exacerbated by the different ownership circumstances on each team. Owners have different motives for buying teams. Some are interested solely in the sport. Some see the sport as programming to support their other investments (e.g., media outlets, stadiums or arenas, concessionaire companies, car- or jet-rental businesses, etc.). The latter group of owners may treat the team itself not as a profit center but, rather, as a means to generating profits for their other investments. When these owners go to the players' market to sign players, they may be asking multiples questions: How much revenue will the player generate for the team? How much will he generate for the owner's regional sports channel, for the planned real-estate–development project, and so on? The team's success will also enhance the owner's standing in the community and, hence, his or her ability to make new deals with other executives, investors, and politicians.

This latter group of owners is likely to perceive more potential value from star players. Thus, Tom Hicks, owner of the Texas Rangers, Clear Channel Communications, a major international investment firm, and the rights to develop 250 acres around the team's stadium and to sell naming rights to the ballpark, believed that the potential contribution of Alex Rodriguez to his investment universe was huge. Accordingly, he offered A-Rod a prodigious and unprecedented contract: ten years for $252 million plus bonuses. Had Hicks been thinking only about A-Rod's contribution to the Rangers, he never would have offered such a sum.

Because of these inequalities in market size and ownership synergies, teams appraise players' worth in vastly different terms. Without a league-imposed constraint, some teams may outspend others by a margin of nine or ten to one. Indeed, this happens today in baseball, even though the league imposes a luxury tax of up to 40 percent on that portion of the team's payroll that exceeds the threshold. In the NBA until 2002, some teams had payrolls above $100 million while others had payrolls below $30 million.

These disparities are not conducive to either the promotion of competitive balance or financial stability. Hence, owners seek constraints on the players' market. (Owners, though, must be careful how they impose constraints, lest they run afoul of the nation's antitrust laws.) Players, in contrast, seek free markets and the highest possible salaries. Each of the four major team-sports leagues in the United States today employs at least one artificial mechanism to constrain salaries. The NFL, the NBA, and the NHL (with the new 2005 labor agreement) have salary-cap systems. MLB has a luxury tax on high team payrolls, an extensive revenue-sharing system that reduces a player's net value to a team, and team debt limitations. Each of these systems has imperfections and produces tensions among owners as well as between owners and players that are discussed in the essays in Parts II and IV.

Major League Soccer has organized itself as a putative "single-entity" league, which means that the teams have common ownership. The principal goal of this system of organization is to avoid competition among teams for players and thereby to reduce players' salaries. MLS has succeeded in maintaining low salaries, but it has failed to attract the world's best players. The top players go to Europe, where player markets are open and salaries frequently rise to several million dollars a year or higher. In consequence, soccer fans generally perceive MLS to be a minor league, and the league's attendance numbers reflect this perception. At the same time, the league's owners are losing money and are understandably reluctant to risk quadrupling or quintupling their payrolls to hire the world's best players. The league's business model, thus, appears to be caught in a rut.

MLS, like the big four U.S. team-sports leagues, is a monopoly. It is the only top-level producer of its sport in the country. Similar to the NHL prior to 2005, however, MLS, despite being a monopoly, does not generate profits. To some this may appear anomalous—monopolies are supposed to generate above-normal profits. While this is valid in general, it is not true for industries that are poorly managed or have insufficient demand for their product.

In contrast, MLB, the NFL, and the NBA are all economically healthy leagues. This is not to say that all teams in these leagues are always profitable. There are some inefficiently run teams, particularly those in smaller markets, that may experience unprofitable years. But even in these leagues the owners of the profitable teams may not experience abnormally high rates of return. This is because (1) the players have been able to capture some of the monopoly rents via higher salaries or (2) the monopoly value of teams has already been reflected in the team's sale price. Nonetheless, the fact that franchise values have risen over time (and done so at a rate considerably above the increase in the Standard and Poor's 500) is strong evidence that owning franchises in these leagues is a good economic investment. These financial considerations are illustrated by the essays in Parts I and III.

One of the most important factors that has contributed to franchise profitability is the phenomenon of publicly funded stadiums. As monopolies, the leagues can artificially reduce the number of franchises below the demand for them from economically viable cities. This scarce supply thrusts cities into competition with each other and results in large public subsidies to attract or retain a team. Over $20 billion of public money has been spent on new facilities for teams during the past fifteen years, with an average of approximately 70 percent of the construction cost being publicly defrayed. Politicians and other stadium supporters have claimed that this public investment pays off because the city will get more back in taxes from the increased economic activity associated with the new facility. Independent studies by economists, however, find that such a payoff cannot be anticipated, and the justification for any public financial support has to be found in quality-of-life, not economic, benefits. These arguments are discussed and illustrated in the essays of Part III.

While college sports bear multiple similarities to their professional counterparts and are linked to them because they provide free training and simplified scouting opportunities to the pro leagues, the educational, economic, and moral issues raised by college sports are entirely different. College sports are run by a monopoly, the National Collegiate Athletics Association. The NCAA, in turn, is divided into three divisions, basically according to each school's financial commitment to its athletics program. Division I is the most commercially oriented of the three, and within Division I, Division IA stands out. Division IA includes 115 schools. These programs, despite extensive commercial ties and top coaches' compensation rising above $1 million, benefit from the same tax-exempt treatment as the educational programs at the university. The football and basketball players are not directly compensated in financial terms, but they have a special status among the students, receiving extensive tutoring, blinkered advising, privileged access to a watered-down curriculum of courses, often separate living and dining conditions, under-the-table payoffs, and so on.

Notwithstanding the assertions that this is all amateur sports intended to provide a healthy balance to the intellectual life of the college student, male athletes are showered with many more resources than female athletes. Title IX is supposed to rectify the gender imbalance. Yet while women have made significant progress over the years, particularly from 1992 to 2000, Title IX has not been vigorously enforced since 2001 and has come under attack from various sources.

There is little question that the college sports system has elements that are both hypocritical and corrupt. In the vast majority of cases, it is also financially burdensome for the schools. The educational, ethical, and money issues surrounding college sports are presented in the essays of Part V.

Part VI includes pieces on the media and doping in sports. The area of media has witnessed the most radical transformation of any since 1990.

The telecommunications revolution, along with the advent of the Internet and fourth-generation cell phones, have provided a proliferation of channels, including specialized sports and niche networks, and new viewing options. The introduction of a new national network, Fox, in the 1990s meant increased competition for sports programming and higher rights fees. The innovation of Tivo and similar products challenged the traditional advertising model by making it easier for viewers to record programs and skip over the ads. At the same time, it put a premium on the telecasting of sporting competition, which viewers strongly prefer to watch live. The sports with stronger television allure, such as football and baseball, benefited the most from these changes, while hockey was left behind. In the NFL in 2005, the average teams received over $110 million in annual television-rights fees (with the number slated to rise to around $140 million in the coming years). In contrast, in the NHL, the average team in 2005–2006 will earn less than $3 million from centralized television-rights fees.

Finally, the integrity of sporting competition has been called into question by the anabolic-steroid and performance-enhancing–supplements scandal of recent years. The matter was brought to a head by the publication of Jose Canseco's book *Juiced* in early 2005 and then the March 2005 congressional hearings. Several essays deal with the evolution and complexity of the doping issue and suggest that the problem will be with us for some time to come.

One of the more remarkable aspects of the doping scandal in baseball is that fans, while curious, seem unperturbed. Attendance and television ratings continue to grow. If nothing else, this is testimony to the intensity of sports fandom in the United States. In our increasingly automated and visual culture, sports represent one of the few opportunities for communities to find identity and to come together. It is hard to imagine our society without spectator sports. Whether or not one is a fan, then, it makes sense to try to understand the sports business and what makes it tick. By presenting vignettes and interpretations of important events in the sports industry over the past fifteen years, this collection, I hope, will contribute to such an understanding.