

OVERPAID ATHLETES? COMPARING AMERICAN AND EUROPEAN FOOTBALL

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Sports fans often complain that the stars they watch are “overpaid” relative to their performance. This article examines this claim by analyzing the relationship between player pay and performance in two major sports: American Football and European football. The essay considers the structure of payment and the distribution of salaries revealing that the National Football League (NFL) has greater restrictions on its labor market than has European football. Since the NFL labor market is restrictive, many players have salaries that are below the amounts that they contribute to team revenues. In contrast, European football has a more open labor market with few restrictions and salaries of European footballers are broadly in line with performance and contribution to team revenues, although overpayment can still occur. In both types of football, growth and distribution of broadcast revenues are important factors determining player salaries. The gap between “superstars” and “journeymen” has widened in both NFL and European football and this poses questions for salary management in each sport.

The salaries earned by sports stars are a source of considerable discussion by many. Fans want the best players possible for their team’s rosters. They also want what they regard as a commensurate level of performance from the players they support. High salaries earned by sports stars have a double-edged property. On the one hand, lavish salaries can motivate aspiring young players to succeed in sports and themselves become role models as professionals. On the other hand, large salaries are a source of envy and disaffection. Sports performances could be regarded as “socially unproductive” and high salaries of players might be seen as “unfair.” Economists are quick to deal with the latter problem by explaining the “diamonds-water paradox.” Diamonds are less useful than water but command higher prices, due to both scarcity and ability to pay. Water is plentiful and the huge supply easily dominates high demand to drive water prices down to low levels. Similarly, in sports, top professional athletes have rare ability and a large market willing to pay to view their performances, either at the stadium or on television. In contrast, schoolteachers (arguably) do not have such specialized ability and do not have their performances in classrooms viewed by a large paying public.

The basic economic principles of superstars state that consumers regard certain individuals as slightly better than the competition. In the music industry, this may come down to fashion and tastes. High demand for “special talent”

combines with low cost of dissemination of artists' performances, in turn made possible by technological advances, to create a large market which generates large earnings for these artists. Adapting this principle of superstars to pro sports players is not straightforward. Sports stars must play as part of the team and two points follow from this. First, fan loyalty is to the team not the player. Second, the star's contribution to team performance and team revenues will necessarily depend on the inputs of teammates. This applies to both American football and European football. In the National Football League (NFL), teams are stratified into offense and defense. A star on the offense needs a strong defensive capability to stop an opponent's offense and so give opportunity and time to play offense. Offensive plays are complex scripted designs and require interactive effort by all eleven players, including the blocking efforts of the offensive line. In European football, a star striker needs his defensive colleagues to successfully resist attacking pressure by opponents. He also needs a supply of the right kind of passes from teammates to generate scoring opportunities. Assessing an individual player's contribution to team performance and then to team revenues turns out to be much more difficult in the two types of football compared to, say, Major League Baseball, in which the action is largely about a pitcher facing a batter in one-to-one confrontation. Although team interdependencies do exist in baseball, they are less prevalent than in the two types of football.

It is a paradox of modern sports that many fans are spectators at the game or in front of a television set, while criticizing the players as "overpaid." The irony here is that it is the involvement of these fans, and their purchases of match tickets, satellite television subscriptions, and team merchandise, that pays for the high salaries in the first place. Nevertheless, a psychological perception of overpaid superstars is present.

This article will first identify the basic features of pay determination in American football and European football. I then proceed to consider the extent to which players have freedom to move in each sport as ease of mobility will be an important consideration in salary determination. Free agency in each version of football has been hard to achieve for players and is still not complete. Finally, I put the discussion of overpayment and underpayment of players in context of recent developments in the respective leagues, both in terms of league structure and the growth of broadcasting revenues.

Paying Players

American Football

In the U.S., there is effectively just one league offering professional (American) football, the *NFL*. This was formed in 1920 but did not have a stable set of teams until 1936 (Leeds and von Allmen 2005). The emergence of the NFL as the U.S.' premier revenue-generating sport is a relatively recent postwar phenomenon, boosted by the first Super Bowl in 1967. Canada has its own league, the Canadian Football League, with slightly different rules of play. This league

is generally regarded as inferior in quality to the NFL. Over the postwar period rival leagues, such as the U.S. Football League, have unsuccessfully attempted to compete with the NFL. The NFL currently comprises thirty-two teams organized in two conferences with a total of six divisions. A sixteen game schedule is played out in the fall of each year and twelve teams compete in a further set of playoff games that culminates in a game between the two conference winners, the well-known and much-watched Super Bowl. Each team has a roster of a maximum of fifty-three players at any time, although it is possible to remove players from the roster or add them during a season. Injured players do not count to the roster total. From their rosters, teams will allocate a starting eleven offensive players and a starting eleven defensive players. Unlimited substitutions are permitted.

The typical player contract on an NFL team will have four years duration but shorter and longer contracts do occur. Player entry into the NFL is a carefully organized and complex affair. New players (rookies) are usually (not always) assigned to teams in a complex player draft system in which teams finishing lowest in the prior season standings get first pick of the crop of available talent drawn from college football organized by the National Collegiate Athletic Association (NCAA). Although players have very limited choice in their assignments to teams, deals can be arranged when a player declares refusal to play for a drafting team and wishes to play somewhere else. Generally, though, drafted players find that the contracts they receive are much in excess of the earnings they would generate from their next best occupation. The draft system is alleged to help preserve some degree of parity of playing resources, and therefore *competitive balance*, in the NFL. It also passes the costs of initial training of young American football players on to the colleges that participate in the NCAA structure.

An NFL player's salary comprises three main elements. First, there is a basic salary, which is subject to an experience-related minimum established by a collective bargaining agreement between team owners and the players' union, the National Football League Players Association (NFLPA). The basic salary often exceeds this minimum but, crucially, this part of salary is not guaranteed. Thus, if a player is "cut" by his team he loses this part of his salary. However, players may negotiate (individually) their own "signing bonus" and for several players this can be substantial. The bonus is a fixed sum that can be paid at any time during a player's contract. For most players in receipt of a signing bonus, the player will receive payments staged over the life of the contract and not all upfront. The final part of salary is a performance-related bonus that comprises a standard (usually small) team bonus and a personal bonus based on targets achieved, for example, number of rushing yards for a running back.

In North American sports, player's salary details are widely publicized and an archive is available at <http://www.usatoday.com>. Professor Rod Fort's sports business pages website provides the excellent service of collating player salary information for a large number of seasons, back to 1988 for NFL. Data on sponsorships and endorsements are not available so we shall focus on the key

contract properties. Take as a random example, Jon Jansen, a starting offensive line player for Washington Redskins in 2005, with five years of NFL experience. His salary is reported by *USA Today* (*USA Today* 2007) as:

Basic salary	\$540,000
Signing bonus	\$1,460,000
Other bonuses	\$5,770
Total salary	\$2,005,170

In this case, signing bonus exceeded basic salary but it should be stressed that the bonus is spread over a number of years. This spread will be affected by the club's management of pay structure under the *salary cap* imposed by NFL since 1994, again through collective agreement with the players' union. In 2005, the salary cap was set at 64 percent of "designated gross revenues" for each team. A new bargaining agreement in 2007 lowered the salary cap proportion to 59.7 percent but widened the revenue definition so that players gained overall. The amount allocated for salaries for each team in 2007 is set at \$107 m. The cap was, and is, binding in the precise sense that all player contracts have to be ratified by NFL head office to check for compatibility against the cap. For the purposes of the cap, signing bonuses are pro-rated over the life of the contract. The design of salary contracts to fit the cap is a matter of skill and complexity; a useful guide can be found on <http://www.askthecommiss.com>. Note, though, that coaching salaries are exempt from the salary cap and that stadium revenues from luxury boxes are exempt from the definition of designated gross revenues. Larger market teams can thus circumvent the salary cap by using nondesignated revenues to hire better quality (more expensive) coaching staff (Hamlen 2007). Moreover, the system allows some discretion on payroll as total salaries can deviate either side of the salary cap by 20 percent (Leeds 2006).

European Football

Unlike North American sports, European football is organized in hierarchical divisions with promotion and relegation. For example, the top division of the Bundesliga has eighteen teams and three are demoted, with replacement, to the second level each season. Team revenues are enhanced by the possibility of qualification for European-wide competitions, including the lucrative Union of European Football Associations (UEFA) Champions' League and the UEFA Cup. Across Europe, the size of first team playing squads is typically around twenty-five to thirty-five, larger if teams compete in pan-European tournaments. This roster is flexible with no upper limits. One restriction on recruitment is that player trades can only take place in the close-season or in the "transfer window" of January of each year. The roster does not include youth trainees who will be contracted to clubs. Clubs organize, and pay for, their own recruitment and training systems and facilities and there is no player draft. In matches, teams play with eleven men with three possible substitutes from a group of five.

For both players and clubs, promotion and relegation means that divisional status is uncertain. This is especially important for salary determination as teams will not wish to pay top division salaries to players upon demotion to a lower division. Conversely, players may not wish to stay with a relegated club, although that depends largely on available offers.

European footballers' salaries are not determined by collective bargaining. Instead, individual bargaining will occur between the club and the player's representatives. Moreover, European football teams do not have to worry about a binding salary cap, although implications of player salaries for the club's budget will be a source of concern. Sports economists have noted a substantial difference in objectives for sports teams in Europe compared to North America. In Europe, it is argued that teams pursue the objective of winning rather than profits, subject to a budget constraint in the form of tolerable debt (Késenne 2007). In contrast, it is said that North American teams attempt to maximize profits and clubs are only interested in winning championships to the extent that this can be transformed into revenues and profits. However, if we take the English Premier League and Bundesliga as European cases, we see that payroll-revenue ratios were of the order of 60 to 70 percent in 2005 and not far above the NFL 64 percent stipulation at that time (Vrooman 2007).

Like their counterparts in American football, European football players receive a signing bonus, which may be deferred until the end of the contract. They receive a regular salary but, unlike American football, bonus payments and contingency clauses form important parts of the contract. Bonus payments are mostly at team level and one common feature is a win bonus for winning a particular match. Bonuses are also paid for particular league positions and success in Cup tournaments. An unusual form of bonus occurred in the 2006/2007 season in Croatia where defender Ivica Supe was "surprised" after his club's sponsor rewarded him for his goal scoring record. "I just don't know where I will keep them," he admitted after third division Zagora FC's sponsor—a local shepherd—promised him a sheep for every one of the sixteen goals he had scored. Most bonus payments are in the form of cash payment, rather than in kind although English clubs did use fringe benefits (e.g., houses, cars, household services) to circumvent the maximum wage imposed in the 1950s.

Contingency clauses in European footballers' contracts include reduced salary in the event of relegation and higher salary when a team is promoted. Escalator clauses are often invoked when players reach specific numbers of appearances for their team, or when they are selected for representation in national teams, for example, for the World Cup. Options for contract renewal, based upon performance, are also widely used so contracts are of a flexible, rolling type. The typical contract duration is three years but veterans reaching the end of their careers tend to have shorter contracts.

A prominent feature of the European footballers' labor market is the occurrence of player trades for cash. In North American leagues, including NFL, player trades are compensated for by player exchanges or trading future draft picks. In European football, if a player is traded within contract then the selling

team can ask for a transfer fee from the team acquiring the player's registration. Note that it is the player's registration that is transferred and sold. This transfer fee is a matter of negotiation between the two clubs, but the player can demand a share of the fee as part of his signing bonus. Indeed, this is how the signing bonus was treated historically in European football. Now, the signing bonus is an inherent feature of any contract renewal and not just on occasion of a transfer.

The use of win bonuses and other performance-related components is a strong feature of European football that is largely absent from the NFL. Bernd Frick (2007) has researched salary determination in the Bundesliga, where disclosure of salary data is more widespread than elsewhere in Europe, and finds two interesting results. First, teams that have higher proportions of performance-related pay in their total salary packages tend to gain higher league positions than teams that offer lower proportions of performance-related pay. It seems that raising the performance-related component of pay delivers the correct incentives, something that fans might like to see. But, it also appears that the biggest teams in the Bundesliga (such as Bayern Munich and Hamburg) use performance-related pay to a lesser extent. The apparent contradiction can be resolved by noting that bigger teams will tend to hire stars whose talent is known with greater certainty and whose outside options in terms of rival salary offers, not just in the Bundesliga, will be rather higher than for journeyman players. Big teams will need to resort to greater reliance on basic salary to attract these star players, who will reject the uncertainty inherent in a salary package based largely on performance.

Freedom of Movement

Players in both NFL and European football have found freedom of movement in their sports hard to come by. As noted, NFL players are typically drafted into the league. A three or four year contract means that a drafted player will stay with a team until he is traded or is released. Freedom of movement is carefully defined in the NFL. *Restricted free agents* are "players who have completed three accrued seasons of service and whose contracts have expired. . . . If a player accepts an offer from a new club, the old club will have the right to match the offer and retain the player. If the old club elects not to match the offer, it may receive draft-choice compensation depending on the level of qualifying offer made to the player." Until 1994, the "Rozelle rule" had stipulated this provision for all players, regardless of length of service. As Leeds (2006) notes, this essentially created a transfer market for veteran NFL players. *Unrestricted veteran free agents* "are players who have completed four or more accrued seasons of service and whose contracts have expired" (<http://www.NFL.com/freeagency>). Perhaps not by coincidence, four years is the average career length for an NFL player.

These free agency entitlements were introduced into the 1994 collective bargaining agreement and team owners extracted concessions from the players' union in the form of an agreement to the salary cap. Certainly, it is clear that player salaries escalated considerably after introduction of the free agency rules

(Leeds and Kowalewski 2001). But broadcasting revenues grew as well and it is hard to separate the effects on salaries of increased player mobility and growing revenues.

European football also had a restrictive labor market up to 1995 (Sandy, Sloane, and Rosentraub 2004, 79–80). In the 1950s, English professional footballers faced:

1. a maximum wage of £20 per week, which was little more than a skilled engineer would earn at that time; and
2. a retain-and-transfer system in which teams could hold on to the services of players even after contracts had expired; teams could demand transfer fee payments even for out-of-contract players.

A weak players' union meant that teams could keep these restrictive practices until a series of high-profile court cases in 1961 and 1962 declared both types of restriction to be restraints of trade (Harding 1991).

The retain-and-transfer system was abandoned in England in 1978 but lingered on in other European leagues. In 1995, the ability of teams to extract transfer fees for out-of-contract players was finally declared illegal by the European Court of Justice following a famous case brought by veteran journeyman footballer, Jean-Marc Bosman. Bosman was out of contract with RFC Liege wanted to transfer from Belgium to Dunkerque in France. Liege insisted on a transfer fee that Dunkerque refused to pay. Liege also refused to renew Bosman's contract. After a protracted legal dispute, the European Court of Justice rules that transfer fees paid for out-of-contract players were counter to the principle of free movement of labor under the European Union Treaty of Rome. The Court also ruled against restrictions imposed by national leagues on EU players from outside national associations. Taken together, the rulings released restrictions on the players' labor market. As predicted, salary growth did rise but, contrary to some visions of doom and gloom (Will 1999); large-scale club insolvency did not result. Fortuitously, the relaxation of the players' labor market coincided with shift in tastes in favor of European football and large increases in broadcasting revenues (Andreff and Bourg 2006). It could reasonably be argued that the consequence of the Bosman ruling of more open labor markets and greater spread of international talent in some domestic leagues (increased player immigration into England, Germany, Italy, and Spain) actually contributed to the growth of popularity of football in these leagues, as revealed in England by the growth of gate attendances and sales of broadcasting rights after 1995 (Buraimo, Simmons, and Szymanski 2006).

Overpaid or Underpaid?

Table 1 below shows average player salaries (with pro-rated bonuses included), total revenues, and average gate attendances for the top four sports leagues in North America over the 2005/2006 period.

Table 1. Comparative Average Salary Across Major North American Sports Leagues, 2005/2006

Sport	Average salary \$m	Total league revenue \$b	Average gate attendance
Major League Baseball	2.30	4.40	27,677
National Basketball Association	4.92	3.75	17,050
National Football League	1.25	5.66	67,593
National Hockey League	1.81	1.80	16,533

Source: <http://www.plunkettresearch.com/sports>.

Table 2. NFL Broadcast Revenues 1982–2011

Period	Annual broadcast revenues \$b
1982–1986	0.42
1987–1989	0.47
1990–1993	0.90
1994–1997	1.10
1998–2005	2.20
2006–2011	3.74

Source: Author's calculations.

The NFL average is the lowest of the four main sports leagues, and is much less than baseball and basketball (see Leeds 2006), for a similar result for 2004). Of course, it must be recalled that NFL teams carry much larger rosters than basketball or hockey teams. But it is striking that NFL has the largest total revenue yet the lowest average player salary. This is at least partly a result of the hard salary cap in NFL. This comparison is indicative of underpayment in the NFL for many players (see Berri, von Allmen, and Krautmann 2007, for a formal statistical demonstration of underpayment in NFL and other US major leagues).

A succession of ever more lucrative broadcast contracts with the major television networks (mostly free-to-air) facilitates growth of average player salaries and team payrolls. Table 2 shows the time path of NFL broadcast revenues, expressed as \$m per annum, with a high rate of acceleration from 1994 onwards.

This rapid growth in broadcast revenues has been mirrored by growth in team payrolls. In 1999, the total amount per team allowed by the NFL for payrolls was \$57 m. This figure rose to \$75 m in 2003 and \$102.5 m in 2007.

Salaries in all industries and occupations tend to be highly skewed with a small proportion of workers earning a disproportionate share of total earnings. Then, median earnings will be below average earnings. In NFL and European football, skewing of salary distribution is even more marked than in other industries, as a few superstars earn much more than their less able colleagues. For example, *USA Today* reports that the median salary of the 2006 St. Louis Rams roster was \$741,000 but actual salaries (not pro-rated) varied from \$125,000 to \$11,000,000. According to the Bureau of Labor Statistics, average annual earnings in the U.S. manufacturing industry were \$36,500, for production and nonsupervisory (blue-collar) workers.

Assessment of overpayment or underpayment requires a benchmark. Economists use the notion of extra revenue generated by an extra worker (marginal revenue product). Only a few superstars have celebrity appeal (David Beckham, Thierry Henry). Beckham's new contract with LA Galaxy, signed in 2006, is estimated to be worth \$180 m (including endorsements) and is the most lucrative professional footballers' contract by some distance (Frick 2007). Most European footballers will settle for a modest fraction of Beckham's compensation.

Generally, players' revenue-generating capacity will usually reduce to their ability to raise team performance in their league. As noted above, the importance of teamwork in American and European football makes any inference of excess payment difficult. Players perceived as "underachieving" may be due to failings of teammates rather than any lack of ability or effort by the player himself. Underachievement may also be caused by failings of the coaching staff to develop playing strategies that match players' strengths. Coaches may also be deficient in motivating their players. On the other hand, players may not commit maximum effort (shirking or free riding or "hiding" as it is termed in European football).

It is likely that many players in the NFL are underpaid rather than overpaid. There are only thirty-two professional teams and these have a degree of monopoly buying power in the NFL labor market (monopsony). Although this is offset by the players' union to some extent, the owners' bargaining power is buttressed by the player draft, delay of unrestricted free agency to four years and the salary cap.

It is noticeable that NFL players who switch teams tend to move for lower, not higher, salaries (Berri and Simmons 2008). This is largely because players who have proven their ability with the team that has drafted them will receive highly attractive offers by their team in order to retain their services. Given that competing clubs are restrained in bidding for free agents by the salary cap, offers of contract renewal tend to be some distance above any outside offer. The path to lucrative contracts in the NFL is to stay with a team for a long spell, as shown by Peyton Manning at 2007 Super Bowl winners, Indianapolis Colts.

With a large roster to support, and a binding salary cap, teams tend to pay a small number of key players large salaries and then offer remaining players deals not far above union-agreed minimum rates, which in turn rise according to length of service in the league. At first glance, the quarterback appears to be the most important player in the game as he leads the team and orchestrates the plays designed by the coaches. However, only thirteen teams out of thirty-two paid their starting quarterback the highest salary in the roster in 2005. For instance, the highest paid player on the Baltimore Ravens roster in 2005 was Ray Lewis, a linebacker. He is regarded as a specialist in that position, superior to others, and the Ravens management sought to reward Lewis for his special ability in leading an aggressive Ravens defense. Lewis's salary cap value, reflecting a pro-rated distribution of signing bonus, was \$8.43 m in 2005. It was still the case, though, that established quarterbacks such as Peyton Manning, Brett Favre of Green Bay Packers and, until recently, Michael Vick of Atlanta Falcons

earned rather more than Lewis's value. Some teams have younger or less well-established quarterbacks and Baltimore was one of these in 2005.

The tendency of NFL teams to reward a few key players very highly while spreading the rest of the salary cap-determined payroll thinly over the rest of the roster leads naturally to substantial pay inequality across teams and across the league as a whole. Craig Depken's (2000) statistical investigation of team performance in baseball showed that a high degree of payroll inequality within teams, as measured by the Gini coefficient, was associated with significantly lower team performance, as measured by regular season win percentage. This can be attributed to loss of team cohesion and morale as team salaries diverge "too much." This argument should not be stretched too far. The journeyman players on the Indianapolis Colts roster were unlikely to begrudge Peyton Manning his large salary (and endorsements) when the Colts won the 2007 Super Bowl.

Berkovitz, Geier, and Quinn (2006) have applied Depken's analysis to the NFL. They find that the average Gini coefficient of salary cap values across teams was 0.25 over the period 2000–2005. With complete equality (uniform salary distribution) measured as unity, this suggests highly unequal salary structures. Berkovitz, Geier and Quinn also show that increased NFL pay inequality was *not* associated with lower (or higher) team performance in terms of win percentage. However, higher *total* payroll, relative to league average, was associated with enhanced team performance, a result that supports the findings of Simmons and Forrest (2004) for a longer time horizon.

How can the NFL rectify underpayment of players? A reduction of the qualifying period for unrestricted free agency from four years to three would help players considerably but is most likely to be resisted by team owners. A relaxation of the salary cap is a more palatable measure. In 2007, the salary cap proportion was reduced to 59.7 percent but the definition of designated gross revenues was widened so that, overall, players gained.

Of course, although many players are underpaid relative to the extra revenues that they generate, they still receive salaries that are considerably in excess of their potential outside earnings. It should be noted, though, that the competition for a place on a team's roster is extremely intense. The time spent by a player in off-season practice, high school football years and college football years may not be rewarded at all if the player does not pass the rigors of the teams' training camps, designed to select the best players. Hence, any aspiring NFL player faces a very risky career. One critical difference between NFL and European soccer leagues is the lack of lower professional levels for a player to move to if rejected by the NFL, although the Canadian Football League is a possible destination. In Europe, players sort into hierarchical divisions largely on the basis of ability but lower divisions, or smaller leagues, can at least offer a respectable career option for players unwanted by the Premier League teams.

In European football, free agency is still incomplete and some players may be underpaid. This applies in particular to players under the age of twenty-one

who may be signed as youth trainees on rather low rates of pay. These players are not drafted and their performance and revenue-generating potential is not known with any degree of certainty. These players may receive much lower salaries than their more experienced colleagues, even though they may contribute equally to team performances and revenues. Eventually, rival offers will force clubs either to upgrade the player's contract terms or to sell the player's registration for a lucrative transfer fee but there may be some delay in this process during which the player receives less than his contribution to team revenues. It is significant that contracts of young players do not usually specify escalator clauses invoking new terms, or at least new negotiations, when they break into first team squads.

Empirical evidence suggests that, for European soccer, payrolls are a good predictor of team performance (in terms of points ratios rather than win percent, to allow for ties in European football) (Szymanski 2003; Simmons and Forrest 2004). This is broadly indicative of a labor market where team management pays player salaries in accordance with contribution to team performance. But it would be overly simplistic to jump to the conclusion that the European footballers' labor market is fully competitive. Although the Bosman ruling of 1995 ushered in an era of increased player mobility, not just within the European Union, some restrictions remain. European national football associations still apply stringent conditions for work permits for non-EU players originating from North and South America, Asia, and Africa. Also, mobility of players is imperfect due to barriers of language and culture. Lack of language skills is a strong reason why relatively few British players have succeeded in relocations to Germany, Italy, and Spain. The English Premier League has experienced net immigration of foreign players since 1995. Migration in European football tends to be clustered with South Americans heading for Spain and Portugal and Eastern Europeans moving to Germany. Again, culture and language play key roles in these patterns.

Overpayment of footballers can occur in two distinct ways. Teams may find themselves in competitive auctions for players, orchestrated by players' agents. This leads to the "winners' curse," prevalent in many auctions, in which bids escalate until the winner had bid more than potential value of the player. In practice, although agents would clearly welcome auctions for their players' services, competitive bidding tends to involve no more than three teams at any time and two of these will often quickly withdraw leaving just one club to negotiate with a player and his existing club.

Teams may overbid for players as they seek to achieve particular targets, such as qualification for UEFA Champions' League or avoidance of relegation. The former brings the club extra revenue while the latter sustain existing revenues that might be lost upon demotion. The English Championship playoff game to determine the third and final promotion place to the Premiership is estimated to be worth around \$40 m due largely to increased broadcast revenues that accrue to top tier clubs. As these targets come more into focus, teams may overspend on new player talent in the hope that new recruits might make the essential difference between hitting and missing these targets. A graphic example of a

team that overbid for new players was Leeds United, which made a failed attempt to break into the group of top four clubs in English football (currently Manchester United, Chelsea, Arsenal, and Liverpool). Leeds put themselves into high levels of debt after 2000, when it qualified for the Champions' League, and when team performance deteriorated, leading eventually to relegation in 2004, the expensively acquired players had to be sold to other clubs in a fire sale (Vrooman 2007). Such were the peculiar economics of the English Premiership that, for players to be sold, Leeds had to pay for player salaries even when these players signed for other clubs. This was because the contracts signed with Leeds had few contingency or "get out" clauses, especially salary conditional on Premiership status, and Leeds had to honor the full value of player contracts when the registrations were sold. Leeds had massively overestimated the transfer market value of their players. This feature of guaranteed contracts of uncertain value stands in sharp contrast to the "fire at will" approach of the NFL.

The indebtedness of Leeds led to the UK's equivalent of Chapter 11 bankruptcy, called "being placed in administration" where accountants take over the running of the organization and are at liberty to dispose of assets. Leeds United was eventually bought out but other English clubs have experienced insolvency problems, which are attributed to excessive salary growth (Buraimo, Simmons, and Szymanski 2006). Clubs in the tier below the Premiership, called the Championship, became desperate to secure promotion to the Premiership to share in the lucrative Sky Television broadcasting contract. In 2001/2002, English Championship broadcasted football matches on a new digital cable channel, ITV Digital. Clubs spent heavily on player salaries in the expectation that this new broadcast service would deliver increased revenues. However, audience penetration and match audiences were paltry and ITV Digital declared bankruptcy even before the 2001/2002 season finished.

Following the ITV Digital fiasco, two responses occurred. Clubs made greater use of performance-related pay and contingency clauses in player contracts. Moreover, the Football League, as governing body of the Championship and other lower tier football in England, initiated new rules to offer incentives against teams that might deliberately engineer insolvency in order to achieve promotion. (The League prescribed and sometimes enacted penalties in the form of substantial point deductions. It levied ten point penalties on Wrexham in 2005/2006 and Rotherham in 2006/2007 and both clubs were relegated from their divisions as a result.) Since 2002, English clubs have reorganized salary contracts and have operated more prudent financial practices. No English club went out of business over this period, despite shaky balance sheets at many clubs. As noted earlier, European football clubs are oriented more toward winning than to profits.

European football leagues are organized in hierarchies of divisions with automatic promotion and relegation. Clubs in the top tiers of European football leagues have enjoyed substantial revenue growth from sales of broadcasting rights. As an example, Table 3 shows the time pattern of broadcast revenues in the English Premier League.

Table 3. Broadcast Revenues in English Premier League

Season	Value per annum \$b
1992–1996	0.08
1997–2000	0.33
2001–2003	0.69
2004–2006	0.68
2007–2009	1.12

Source: Buraimo, Simmons, and Szymanski (2006); <http://www.bbc.co.uk>.

This growth of broadcast revenues has been translated into total player salaries. Frick (2007) reports a high correlation between value of broadcast rights and player salaries in Germany while Buraimo, Simmons, and Szymanski (2006) find a similar close relationship for the English Premier League. But players have not benefited equally from this growth of revenues. The disparity between revenues in the top divisions in European football and the levels underneath has grown because these lower divisions do not attract large television audiences. As a result, the salary gap between lower division and top division players has widened.

Within European football, teams and governing bodies have expressed concern that ratios of payroll to revenues were in excess of 70 percent at several clubs, which is a signal of impending insolvency (Vrooman 2007). Examples include many teams in the English Championship, but also bigger clubs elsewhere in Europe such as Real Madrid and Barcelona. The English Football League now has a voluntary code to restrict payroll/revenue ratios to below 70 percent but there are no sanctions to apply to this and this is by no means a salary cap. Manchester United has complained, through the self-appointed G14 lobby group of big European clubs, that Real Madrid and Barcelona “overspend” on players making it difficult for United to compete effectively in the Champions’ League. But this is just a ruse to reign in the talent acquisition of Real Madrid and Barcelona and does not fit well with Manchester United renewal of Cristiano Ronaldo’s contract with a basic salary estimated at \$12 m per year. Manchester United is the most profitable football club in Europe.

Summary and Conclusions

Player salaries in American and European football are determined by rather different mechanisms. In NFL, players tend to be drafted and the period before full free agency occurs is approximately the average career length. Careers are short and risk of serious injury is a major concern for players. For “ordinary” players it seems there is evidence of underpayment relative to revenue-generating capacity (Berri, von Allmen, and Krautmann 2007). NFL players will tolerate underpayment so long as salaries are rising generally. This is indeed the case and is mainly a reflection of growth of revenues from sales of broadcasting rights. Should this growth eventually stall, complaints of underpayment are likely to be stronger.

In European football, identification of underpayment or overpayment of player salaries is much more difficult as salary information is not widely publicized; Germany is a notable exception (Frick 2007). There appear to be cases, such as at Leeds United noted above, where overbidding for player talent occurs. But, at team level at least, payrolls and team performance appear to be well-correlated in a labor market that is less restrictive than for NFL (Simmons and Forrest 2004). Moreover, when teams breach tolerable payroll-revenue ratios, adjustment to contracts follows.

Contracts in European football now rely more than before on performance-related bonus payments and contingency clauses. Another recent feature is increased use of a loan system, where teams can “borrow” players from other teams. This makes many European footballers rather like temporary workers. Originally designed to help teams overcome injuries to players, the loan system has become a means for smaller teams to cut costs by reducing their rosters of players on regular contracts. It has also made smaller teams appear rather like minor league “nursery” baseball teams, borrowing young or fringe players from big teams to gain first team experience in lower divisions.

Underpayment of European footballers can occur where young players receiving training contracts break into first team squads and do not immediately have their contracts renegotiated. The position of contracts for players under twenty-three is presently under review by football’s governing bodies (Dabscheck 2006).

As with NFL, the growth of European footballers’ salaries is a reflection of greater popularity of the sport, reflected in growth of both television and stadium audiences. But concerns have been expressed that revenue growth has been concentrated in the biggest clubs (Vrooman 2007). Revenue disparity then translates into salary disparity and these are both sources of concern. However, a formal salary cap in European football, along the lines of the NFL is most unlikely to be introduced. A salary cap might help restrain salary growth in lower divisions of national leagues, to forestall financial insolvency, but is unlikely to be agreed to by bigger top division teams. So long as broadcast revenues continue to climb, European footballers will be content but the division of extra revenues between clubs and players, and within players, will be a source of tension within soccer for some time to come.

It is likely that the *perception* of overpayment of players by many fans will persist, despite the efforts of player unions, team owners and, indeed, academics to protest to the contrary. This is largely because concerns over *relative*, rather than absolute, pay are important for workers’ self-esteem. A large literature has established the importance of relative pay for both workers’ job satisfaction and overall happiness (e.g., Oswald 1997). If players perceive relative pay as too low, then both job satisfaction and overall happiness decline. It should not be surprising if concerns over relative pay also surface in leisure activities. If fans’ relative pay falls, when compared to sports stars, then fans’ enjoyment of sporting events suffers, particularly if the alleged overpaid star fumbles the ball in an NFL game or misses an obvious goal scoring opportunity in European football.

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