

Cash Dash

A taste of the economics of sports

The systematic study of the economics of sports began about 50 years ago, with Simon Rottenberg's 1956 article, "The Baseball Players' Labor Market," published in the *Journal of Political Economy* at the University of Chicago. While focusing on the labor market in baseball, he tried to define the nature of sports leagues, including inherent competitive and cooperative elements, and the problem of competitive balance across teams (aka "Damn Yankees").

The last 50 years have seen seismic changes in the sports business: free agency and unions that turned players into millionaires; huge increases in broadcast revenues—over 70 percent of the revenue for an NFL team comes from television—and massive public subsidies for cash-cow sports facilities have turned team owners into billionaires.

Currently "The Economics of Sports" is a popular offering at many universities, and scholars—economists, statisticians, law and business faculty members and other social scientists—publish their research in academic journals, including the *Journal of Sports Economics* and contribute newspaper op-ed columns. The Sunday "Keeping Score" articles in *The New York Times*, the new daily sports page in *The Wall Street Journal*, the statistics journal *Chance* and following sabermetricians' latest twists in the *Baseball Prospect* are good places to increase one's knowledge and hone one's quantitative instincts when it comes to strategic decision-making.

Some findings of these eggheads: football teams should generally go for it on fourth down rather than punt; stealing bases in baseball is not worth the likely cost of an out; Tiger Woods is much better in his sport than Roger Federer is in his, mainly because the structure of the competition makes it so much more difficult to win a major tournament in golf than in tennis; Tony

By Allen R. Sanderson LaRussa is optimizing by batting his pitcher 8th rather than 9th, and one would expect a perfect game in baseball about 1 in every 15,000 games, so Mark Buerhle's gem was right on schedule—Randy Johnson pitched the last one in 2004.

In recent years, these researchers and writers have also produced some entertaining books for intelligent lay readers. One of the first popular volumes in this genre was Michael Lewis's *Moneyball* (his *The Blind Side* may be better). Of the dozens that have followed it, the best of the more scholarly bunch are: *Playbooks and Checkbooks*, an excellent historical summary by British economist Stefan Szymanski; two by Andrew Zimbalist on baseball, *May The Best Team Win* and *In The Best Interests of Baseball*; and *The Wages of Wins* by Berri, Schmidt & Brooks.

In terms of what we have learned in the last 50 years, a dozen "talking points" stand out:

- What is the relationship between ticket prices and players' salaries? [None. If players performed for free, you'd still pay the same amount



PHOTOGRAPH BY JIM WALKER

to sit in Wrigley Field or "the Cell.")

- Then why do tickets cost so much? [First, in inflation-adjusted and relative-to-income terms, they probably don't; second, the league exercises monopoly power (see your notes from Economics 101); and third, as Pogo said, we have met the enemy and it's us—we are willing, and in most cases perfectly able, to spend this amount of money to be entertained.]

- Why don't we blame salaries paid to Carrie Underwood or Elton John for driving up concert prices? Or Julia Roberts or Tom Hanks for driving up movie ticket prices? [Got me.]

- What is the importance of reverse-order player drafts in maintaining or creating balance across the league? [None; they just redistribute money from players, who have fewer options, to owners.]

- Are team owners in these leagues really losing money? [No, but feigning poverty has generally served as a profit-maximizing ploy.]

- What is the economic impact of a new sports stadium or franchise on a city? [None; it just redistributes revenues from some cash registers to others.]

- How about the costs of a labor-dispute—strikes and lockouts—on a city's economy? [Zero; same argument—fans just spend their money elsewhere in the metropolitan area, including for therapy.]

- And the economic impact of hosting a Super Bowl game? [Very little.]

- Or the Olympic Games? [Probably negative; between the monopoly power of the IOC and local special-interest piggies, pockets get picked.]

- Is there anyone we should feel sorry for in the economic world of sports? [Football and basketball players at Division I universities; they are hands-down the most exploited workers in the United States.]

- Will the WNBA survive? [Only if Maria Sharapova learns how to play basketball. And soon.]

- Are Americans ever going to watch soccer? [No; never.] ☐