

## CHAPTER ONE

# Introduction

## *The Fields of Play*

The rest of the world loves soccer. Surely we must be missing something. Uh, isn't that what the Russians told us about communism? There's a good reason why you don't care about soccer—it's because you are an American and hating soccer is more American than mom's apple pie, driving a pick-up and spending Saturday afternoon channel-surfing with the remote control.

Tom Weir, quoted at [www.soccersucks.org](http://www.soccersucks.org)

Another reason to hate soccer: The “accused” terrorist (who has already admitted to being sent into Belgium to drive a bomb into a U.S. Air Force base, and to “committing himself to becoming a ‘martyr’ for Osama bin Laden”) is named Nizar Trabelsi. And he's a former European pro soccer player. You don't see any former NFL players or Major League Baseball players joining al-Qaeda, do you?

<http://warliberal.com/mt/blog/archives/005321.html>



When British soldiers in Afghanistan and southern Iraq wanted to befriend the locals, they played a soccer match. On Christmas Day, 1914, British and German soldiers in the First World War trenches did the same thing. For nearly 100 years soccer has united a divided world—apart from the world's hyperpower, the United States. You can buy a McDonald's Big Mac on the Champs-Élysées and anything from anywhere in the world on Fifth Avenue, but American sporting culture and the world soccer culture do not mix.

In his book *Take Time for Paradise*, former commissioner of Major League Baseball and president of Yale University Bart Giamatti wrote: “It has long been my conviction that we can learn far more about the conditions, and values, of a society by contemplating how it chooses to play, to use its free time, to take its leisure, than by examining how it goes about its work.”<sup>1</sup> Sport reflects culture. If the culture of baseball is American, the culture of soccer has been largely fashioned in Europe. Soccer was formalized in England in the mid-nineteenth century and rapidly spread to Europe and South America. The dominant influences, however, have been European. The gulf between



European and American values is nowhere more evident than in the gulf between the cultures of soccer and baseball.

Soccer is the world's dominant sport, but only baseball has a World Series.<sup>2</sup> The Soccer World Cup draws an audience larger than the Olympics, but barely registers with American viewers. The antipathy that many Americans feel for the way soccer is played is matched only by the distaste of many Europeans for the American style of play. Many Americans scorn the fact that feeble teams can often win in soccer by concentrating only on defense (they see this as unfair), they snicker that one-third of games end in a tie (because every game should have a winner!), and they are appalled that star players like David Beckham are traded like horsemeat from one team to another, often leaving their home country (such players are disloyal). For their part, Europeans cannot believe that a national sport would change its rules to suit TV, permit lousy teams to continue in the league (even rewarding them with earlier draft picks), or dictate through the draft system which team a player can join. Americans and Europeans have absorbed the structure and rules of their sports into their psyches, turning the arbitrary rules of nineteenth-century administrators into a way of life.

Franklin Foer, in his acclaimed book *How Soccer Explains the World*, attributes American hostility to soccer (at least in some quarters) to globalization. Globalization is feared by many because it seems to force us to accept other people's cultures and values. In France, this phenomenon is represented by McDonald's; in the United States by soccer. As Foer writes, seen from an American perspective, "Soccer isn't exactly pernicious, but it's a symbol of the U.S. junking its tradition to 'get with the rest of the world's program.'"<sup>3</sup> Thus, even if many Americans have come to enjoy soccer as a game, at least when played by their children, when it is organized as a professional league it follows the American sports model rather than the established model of European soccer leagues.

But our national pastimes did not materialize out of nothing. Rather, they were shaped by the conscious decisions of organizers, albeit decisions made a very long time ago. No doubt some, if not most, of these decisions were made with the intent of promoting and developing the sport over the long term. But often these decisions were made in response to short-term problems that may no longer be relevant. Some decisions were not made with the interests of the game itself at heart at all, but purely for temporary personal gain. This book explores how two national pastimes, baseball and

soccer, which developed out of the rule-making of each sport's administrators, came to be woven into the fabric of different national cultures.

To some, two economics professors writing about culture might seem a little incongruous. After all, economists are supposed to worship at the altar of the mighty dollar (or euro, or whatever), certain of the price of everything and the value of nothing, as the saying goes. While it is true that we consider economic incentives (and these include motives associated with the acquisition of political power) to be the driving force behind the decisionmaking in professional team sports, we also believe that the purpose of any economic or political institution is to serve the public. In sports, this means the fans, the people who watch the game. One distinctive feature of professional sports is that the interest of the public accumulates over time. Indeed, one of the most important elements in the attraction of a sport is the relationship between the stars of today and the history of the game. This means that, in a sense, the current generation of administrators and owners is no more than the trustee of an asset that must one day be passed on to the next generation. Moreover, the policies of those in positions of power should be determined by the long-term interests of the fans rather than short-term gains. It also means that there must be a willingness to adapt venerable institutions to the times in which we live, rather than clinging to tradition for its own sake.

In this book we highlight ways in which the distinctive institutions of baseball and soccer developed to deal with specific problems, and how these institutions then came to be part of the fabric of the national pastime. We also examine the extent to which the institutions of today are fitted to the needs of the present generation of fans, and of fans of the future.

Sports leagues in the United States are organized in a fundamentally different way than those in the rest of the world. Those in the United States are based on the model created by the National League back in 1876. Those in the rest of the world are based on the model created by the English Football Association (FA) and Football League (FL) in the 1880s and 1890s.

U.S. sports leagues are closed. Team owners carefully control the number of franchises and their locations. Generally, each team is granted a monopoly over a given territory. Teams extract substantial public subsidies for their facilities. When leagues expand, existing owners charge a handsome entry fee to the new owners. Limits are set on roster size. Leagues benefit from a variety of antitrust exceptions.

In the English model, leagues are open. In each country where soccer is played (save the United States), there is a hierarchy of leagues. Poorly performing teams from higher leagues can be relegated to a lower league, and strong teams from lower leagues can be promoted. New teams can enter leagues at the bottom of the hierarchy without paying an entry fee to existing owners and work their way up to the higher leagues.<sup>4</sup> Teams are not conferred territorial monopolies and usually cannot extort public subsidies from local governments to support facility construction. Roster size is not limited. Open leagues thus generate a number of desirable characteristics from the standpoint of the fans, but as we shall see, the operation of the promotion/relegation system in Europe has created significant incentive and financial problems. These differences in the way baseball and soccer are organized reflect each sport's origins and evolution. Baseball emerged in the 1850s as an upper-middle-class leisure sport, but it soon spread to the lower middle class. At first, elite baseball clubs were extremely conscious of the social status that membership conferred, similar to that of the English cricket clubs upon which they were modeled. Yet as the game became more popular, winning, rather than gentlemanly behavior, became more important. Clubs began to invite (and pay for) good ballplayers from the lower classes. At this stage the game divided. Those old-fashioned gentlemen who wanted to preserve the social exclusivity of baseball segregated themselves from the professional teams, while in the professional teams the white-collar members became the managers and the blue-collar players became the employees. Amateurs and professionals went their own ways.

The National League was formed in 1876 by one group of managers who thought that they could produce a better and more profitable competition by exercising control over the employment of ballplayers (who up until then had moved freely to whichever team would pay the highest price, a practice known as "revolving"). They also believed that they would be more likely to achieve their ends by limiting membership in the league to an exclusive elite. Their business model was so incredibly successful that it not only co-opted or destroyed effective competition, it also became the pattern for American sports leagues.

Soccer in England was also created by a status-conscious upper middle class, but unlike baseball, it never evolved into a purely business-oriented enterprise. Even when the leading clubs started to charge money to watch games and to pay players, they held on to the principle that they were first

and foremost sporting entities, not profit centers. When businessmen started to involve themselves with the clubs, they might have gone down the same path as baseball, segregating amateur and professional. Instead unity was preserved through a series of messy compromises. These compromises meant that although an amateur might compete against the professional, the outcome was seldom in doubt. At the same time, the professional clubs accepted restrictions on their commercial activities and their freedom to make profits. As a result of these decisions, soccer preserved a unified governance over the entire game (amateur and professional), which was lost to baseball. Unlike professional baseball, which was free from such constraints, soccer has been slow to learn how to organize the business aspect of the game in ways that sustain financial stability. In short, baseball developed as a monopolistic industry with a tight focus on profit, while soccer developed as a broad federation of highly competitive clubs. Each system has its problems.

A good illustration of this point is the funding of stadium construction. The United States has witnessed an extraordinary boom in stadium construction in recent years. Between 1989 and 2001 there were sixteen baseball-only stadiums built for major league teams. During the previous thirteen years, there were no baseball-only stadiums built.<sup>5</sup> The total cost of the sixteen facilities constructed during 1989–2001 was \$4.9 billion in current dollars, with an average development cost of \$306 million. Of the \$4.9 billion, \$3.27 billion, or 66.7 percent, came from public coffers.<sup>6</sup> This is an enormous amount of public subsidy for what is supposed to be private enterprise, and must largely be understood as a manifestation of the monopoly power of the major leagues.

Major League Baseball (MLB), as it is now known, has maintained a tight grip over professional baseball since 1915, when its last real competitor, the Federal League, was driven out of business. Despite significant demographic changes in the United States that have created new demand for baseball in new locations, the team owners have managed the process of expansion and relocation to ensure that there is always excess demand for franchises from economically viable cities. With excess demand, MLB has been successful at getting cities to bid against each other for a franchise. The result is public subsidies far in excess of the economic and social benefits generated by a team.

As an example of public policy, this situation leaves much to be desired. Not only are the subsidies huge, crowding out social programs that might

create jobs and rebuild local economies; they are also raised through taxes that are typically regressive, falling more heavily on the poor than on the rich. Moreover, there is now a substantial body of academic research showing that these subsidies bring negligible benefits in the form of jobs and business for the local economy.<sup>7</sup> It is, of course, possible that there are feel-good and other intangible benefits that accrue to a city from hosting a baseball team. The evidence on the size of such benefits, however, is ambiguous.<sup>8</sup> Ultimately, the monopoly power of MLB distorts the stadium economy at the expense of taxpayers.

A rather different picture emerges from the soccer world. The openness of soccer, with its system of promotion and relegation, enables any city, or town, or even village, to host a “major league” team, so long as a good enough squad of players can be assembled. This immediately neutralizes the relocation threat: no city needs to buy someone else’s team to join the elite. Even so, municipal government may invest in a local stadium for reasons of public pride, but this motive is far less reliable than the fear engendered by the relocation threat. Moreover, because competition between teams is so intense, and a club’s tenure in the top flight is so uncertain, the clubs themselves are often reluctant to invest their own money. This can lead to a problem of facility underinvestment, with often tragic consequences.

In May 1985, fifty-six fans were burned to death at the stadium of Bradford City after a dilapidated wooden stand caught fire. In April 1989, ninety-six fans were crushed to death in Sheffield, England, because the stewards and the police were unable to see that too many fans had been admitted into one part of the stadium where an FA Cup semifinal was being played.<sup>9</sup> As recently as 1990, most stadiums in England had been little altered since their construction in the first two decades of the twentieth century. Most clubs lacked the resources to invest in upgrading facilities, and municipal government was usually not allowed to support such investments. The gradual decay of stadiums in England was not just a safety hazard; it also discouraged supporters, and between 1950 and 1985 total attendance fell by more than half (from 41 million per season to 18 million). The audience for soccer became concentrated among young men on low incomes who were increasingly involved in violent confrontations with the fans of rival teams. By the mid 1980s, with most teams close to bankruptcy, the hooliganism problem was so pressing that Margaret Thatcher’s government contemplated closing down professional soccer altogether.<sup>10</sup>

This sorry tale is not just an English one. As we detail in chapter 3, stadium disasters and crowd violence have been commonplace throughout the soccer world. In England, the trend was reversed in the 1990s after the government mandated stadium improvements. During the 1990s, the government earmarked £200 million (about \$350 million) in subsidies for soccer clubs at all levels (most of the money was allocated to the 100 or so professional clubs in the United Kingdom) to help finance stadium redevelopment. However, once all teams were required to invest, most teams decided that it made sense to spend even more than the government required. By 2002 total capital investment in stadium redevelopment over a ten-year period amounted to nearly £1.5 billion (about \$2.7 billion), mostly from funds provided by the clubs themselves.<sup>11</sup> In other words, a small public subsidy triggered a huge wave of private investment. During this period, soccer in England underwent a renaissance, drawing a larger and more socially diverse body of support than it had enjoyed for fifty years.

To be sure, soccer has its own monopoly excesses induced by the bidding to host the World Cup, which is held every four years. Nations are so desperate to host the event that they offer to build stadiums that have limited use once the event is over. For example, in hosting the World Cup, together with South Korea, in 2002, Japan invested about \$3 billion to complete ten stadiums with an average capacity of about 40,000. This amounts to about \$100 million for each World Cup game played in Japan. After the event the stadiums were handed over to teams in Japan's national soccer league, for which attendance is typically in the region of 10,000 per game.

The lesson we draw from these baseball and soccer examples is that an unrestrained monopoly will inevitably lead to the exploitation of fans and taxpayers, while a system of unrestrained competition will, as we will explain, lead to financial pressures that may threaten the health of the league. Sports are, in the business world, a special case because each team depends upon the others to play the game and provide an opposition. Without opponents, no team can produce anything at all. This situation demands a minimum of cooperation among the teams; otherwise chaos will ensue. In practical terms, the extremes of pure monopoly and unlimited competition are to be avoided, but plotting a course between them is not easy. Soccer has lessons to learn from baseball about how to create a degree of cooperation so that club level policies do not undermine the long-term future of the league. By the same token, baseball can learn from soccer that

a degree of diversity and competition can limit some of the excesses of monopoly.

At the risk of oversimplifying, the object of this book is to set out how baseball and soccer have evolved into their current structures. Tracing this evolution, in turn, leads us to a diagnosis of baseball's and soccer's current problems and to identifying some solutions that are gleaned from each other's experiences. This analysis naturally draws heavily on the historical record. In chapter 2 we set out how the basic pattern of each game's administration developed in the crucial formative years of the nineteenth century. It will perhaps come as a surprise to some that baseball in America and soccer in England were quite conscious of each other's development. Not least, we use contemporary sources to show that the English authorities modeled the championship of the English Football League in 1888 on its forerunner, the National League in baseball, in significant measure because of the latter's commercial success. It may well be that other institutions, such as the system of controlling player mobility, also were copied by the soccer authorities from the baseball authorities.

In chapter 3 we turn our attention to the different ways in which soccer and baseball have been disseminated throughout the world. Although baseball is played and followed passionately in parts of the Caribbean and the Far East, neither it nor most of the other U.S. team sports have become particularly popular overseas.<sup>12</sup> In contrast, soccer is played virtually everywhere, and in many countries it is the leading team sport. Soccer's initial diffusion had much to do with the flow of international visitors to England and the foreign tours of English clubs that had become a regular feature of the game by the first decade of the twentieth century. These soccer exchanges were an outgrowth of Britain's expansive foreign trade and investment ties and the accompanying value system that sought to bring British culture to the rest of the world.

Another factor that accounts for soccer's spread is the existence of the Fédération Internationale de Football Association (FIFA), soccer's international governing body, and the policies it has pursued to spread the game, particularly in Africa in recent years. But perhaps the most potent factor has been the identification of soccer with politics and nationalism. While a significant contributor to soccer's vibrancy, it is also sometimes connected to the political and social excesses often associated with the game.



Without players, of course, there is no game. Although the players are the heroes of any sport, in baseball and soccer they were long bound, like servants, to their masters, the professional clubs. In Chapter 4 we discuss the evolution and functioning of the players' markets in the two sports. We show how the labor market in each sport has been controlled and how the players have eventually broken free, either through the power of organized labor, or, after Europe's Bosman judgment, through the power of the courts.<sup>13</sup>

In chapter 5 we treat the distinct business models that have prevailed in soccer and baseball, and compare the financial performance of baseball and soccer clubs. Notwithstanding claims that they are losing money, we argue that all the evidence points to baseball clubs as significant creators of profits. This follows from the monopolistic nature of Major League Baseball, an aspect of the game that has given rise to concern over many years.<sup>14</sup> In soccer, by contrast, we argue that the nature of the competitive structure of the game limits the ability of all but a small elite to generate profits.

In chapter 6 we turn our attention to broadcasting. Despite initial reluctance to broadcast its games, baseball has moved far faster than soccer to embrace, first, television and then new media. This is perhaps not surprising given the enormous wealth that TV can generate for a popular sport. Many administrators in soccer have resisted TV as a medium because they have believed, almost without regard to the evidence, that it will destroy the game. The facts seem to suggest the reverse: TV has done much to increase the appeal of both baseball and soccer by bringing them to wider audiences and creating new markets. Indeed, the eventual realization that this is true has brought the state of soccer TV broadcasting much closer to that of baseball in recent years. One problem, however, which affects the soccer world more than that of baseball, is the specter of monopoly—not at the level of the leagues themselves, but at the level of broadcasters. In recent years, European nationalized monopolies in public broadcasting have been replaced by monopolistic private sector suppliers of pay TV services, leading to relatively high charges for watching live soccer in Europe in comparison with baseball in the United States.

In chapter 7 we discuss one of sport's most complex problems: competitive balance. Every sport needs a degree of competitive balance to create uncertainty of outcome, without which the excitement and suspense that make a sport attractive are lost. The complexities of the competitive balance

argument have to do with three issues. First, competitive balance is hard to define in a precise and measurable way. Second, it is hard to find conclusive evidence about how much it really does matter. Third, fixing a problem of competitive imbalance typically means allowing team owners to agree on restraints that further enhance their monopoly power. There is little doubt that competitive balance has been central to the debate over baseball's state of health in recent years. In European soccer, however, it appears that leagues are capable of withstanding levels of imbalance that would be deemed unacceptable in baseball. We discuss the compensating factors in soccer that make its fans more tolerant of imbalance.

In the final chapter we draw out the lessons that soccer can learn from baseball, and that baseball can learn from soccer. Each sport faces difficulties: in soccer, there is an immediate financial crisis; in baseball, there is a long-term challenge to protect and expand its fan base. Since the nineteenth century, soccer has been promoted very effectively throughout the world. Its fan base continues to grow and spread, even into the United States. But soccer's promotion-and-relegation system, its many virtues notwithstanding, has generated incentives that have led to its present financial dilemma. Compounding this problem, the mix of national and supranational competition has skewed the teams' financial resources even more sharply.

In recent years the European soccer leagues have had to deal with a number of new problems. The liberalization of the player markets following the Bosman decision in 1995, the recent decline in television rights fees, the antitrust ambiguities at the league and Union of European Football Association (UEFA) levels, the double league phenomenon for the leading teams, the inadequacy of revenue-sharing mechanisms, and the financial weaknesses of many clubs have all challenged the health of the leagues. The interaction of national and EU policy oversight has created an uncertain and interesting environment of institutional fluidity. The present system in European soccer needs reform, and it can learn from baseball.

In the United States, baseball has been slipping in popularity relative to football but holding its own relative to other sports. Outside the United States, the Caribbean, and Japan,<sup>15</sup> baseball has made few inroads into new countries and remains a distant third in popularity behind soccer and basketball in mainland China with its huge market of 1.2 billion people. More recently, it has had problems sustaining interest among America's youth as well as among African Americans. This marketing problem has

been exacerbated by baseball's protected monopoly. Baseball's barons have been myopic and without an effective business plan for decades. Revenue inequality and unstable labor relations have continued to damage baseball in the United States, as have recent strategy decisions and public relations missteps by the commissioner's office. The game is groping for a direction and cries out for more effective leadership. Soccer's open and fan-friendly system has important lessons for MLB.

In the end, the organization of soccer and of baseball reflects the societies where they were created. Soccer and baseball will never be organized the same; nor should they be. As in most matters, however, open-mindedness and cross-cultural understanding can be powerful forces.