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The Economics of Football

This book presents the first detailed economic analysis of professional football at club level, using a combination of economic reasoning and statistical and econometric analysis. Most of the original empirical research reported in the book is based on English club football. A wide range of international comparisons helps to emphasise the broader relevance as well as the unique characteristics of the English experience. Specific topics include: the links between football clubs' financial strength and competitive balance and uncertainty of outcome; the determinants of professional footballers' compensation; measuring the football manager's contribution to team performance; the determinants of managerial change and its effects on team performance; patterns of spectator demand for attendance; modelling and predicting match results; fixed-odds betting on football match results and the market in football clubs' company shares.

The book concludes with an extended discussion of the major economic policy issues currently facing football's legislators and administrators worldwide.

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To Carlyn and Imogen SD
To Les and Chris JG

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Preface

Only a few years ago professional football in England was in a state of serious decline. Attendances were falling, revenues were stagnant and the image of the game was marred by hooliganism. Academic economists and the business and finance community paid very little attention to the sector, and most of the publicity surrounding the sport was bad. Since the start of the 1990s, however, professional football in England and elsewhere has experienced an astonishing transformation. Player salaries have risen exponentially, television contracts yield revenues on a scale unimaginable only a few years ago, many football stadia have been completely rebuilt, the profile of commercial sponsorship and merchandising has increased beyond measure and a number of clubs are now floated on the stock market. The business side of football regularly makes headline news, and newspapers devote pages to coverage of financial aspects of the sport.

Football's importance, of course, is not only economic, but also social and cultural. The level of interest is reflected not only by the several million people who attend matches in person each season, but also by the millions more who watch matches on television and follow its fortunes through coverage in the media. The amount of welfare created by football is perhaps even larger than the revenues that are generated at the professional level would suggest. At grassroots level, for example, football's popularity as a participant sport generates benefits for the health of the population. At the highest level, international or European success generates intangible benefits for the nation in the form of prestige and goodwill. Despite football's prominent public profile, and despite the fact that its weekly or daily audiences (including television viewers) run into millions, academic economists have devoted relatively little attention to professional football. This study aims to rectify this situation, by presenting a research-driven economic appraisal of professional football at club level. The approach is based on a combination of economic reasoning and empirical analysis.

The application of economic analysis to the football industry (and to

team sports in general) represents an important sub-field within economics. In the USA economists have been writing and publishing books and scholarly articles on baseball, basketball and (American) football since the mid-1950s. Consequently, the academic literature is dominated by studies of the economics of North American sports. These writings shed light on a wide range of important issues, including the determinants of the compensation received by professional sports players, the nature of joint production in team sports, competitive balance, uncertainty of outcome and the distribution of playing talent in sports leagues and the contribution of the coach or manager to team performance.

The common thread linking research into all of these topics is the development and testing of economic hypotheses, using sports as a laboratory within which suitable data can be collected. A major attraction of sports to empirical economists, indeed, is that the availability of data permits investigation of a large number of economic propositions that would be difficult to test in other areas, because of a lack of suitable data. The professional football sector therefore offers opportunities for empirical research in areas such as consumer behaviour, labour economics and industrial organisation, as well as more specialised topics of particular relevance to the economics of sports.

At this point, the reader's attention is drawn to a small number of stylistic conventions that are adopted throughout the present volume. Currently, the English league football season runs from August to May, although in the past there have been minor variations; for many years the league season was scheduled to finish at the end of April, but often over-ran owing to postponements caused by bad weather. Often the season which began in August 1998 and finished in May 1999 is referred to as the 1998–1999 season. In order to be concise, however, in this volume all football seasons are referred to by their end-year only. The season which ran from August 1998 to May 1999 is therefore known as the 1999 season.

Readers familiar with the recent history of English football will be aware that an important organisational change took place during the summer of 1992 (or, in present terminology, at the start of the 1993 season), with the creation of the Premier League. Previously, the Football League was responsible for the organisation of league competition involving all 92 professional clubs in England and Wales. The clubs were divided into four divisions, with promotion and relegation of a few clubs (usually between two and four) taking place between each division at the end of each season. Between the 1959 and 1992 seasons, the divisions had simply been numbered from 1 to 4. The decision of the Division 1 clubs to withdraw from the Football League resulted in the formation of their

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own organising body, the Premier League, which negotiates television contracts and takes decisions on behalf of its own clubs. The Football League responded by renumbering its three remaining divisions (previously 2 to 4) from One to Three. The league's competitive structure was not affected directly by these developments: promotion and relegation between the Premier League and Division One of the Football League were still automatic at the end of each season. But the renumbering of the divisions does create potential for confusion in a volume of this kind, which draws on both pre- and post-1992 data. To avoid confusion, the convention adopted throughout this volume is that *numbers* are used to refer to pre-1992 divisions (Divisions 1 to 4), while *words* refer to post-1992 divisions (the Premier League, and Divisions One, Two and Three of the Football League).

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