The future of football in Europe[1]

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Abstract

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What would Rottenberg have said?

To the best of my knowledge Simon Rottenberg never opined on the state of European soccer, which is a loss, for sports economists in general and for those of us who study the "European sports model" in particular. As others have already made clear, Rottenberg's analysis of the American sports model still stands today as one of the clearest and most convincing economic analyses of the operations of the major leagues. The American model is, of course, *capitalist* in the sense that owners are assumed to be profit maximisers, and *monopolistic* in the sense that owners jointly control the economic rules of the league restrict entry into the major leagues by new teams. Rottenberg drew two main conclusions based on these assumptions:

(i) that league clubs will extract monopoly rents from consumers and from players. In the latter case, this monopsony power is conditional on the member of the league being able to agree upon restrictions to the operation of the players' labour market

(ii) that these restrictions (in particular restraints in the labour market) will do nothing to affect the distribution of playing talent. In an argument strongly akin to Coase's famous "theorem", Rottenberg's "invariance principle" stated that the distribution of talent will be independent of who owns the right to the revenue stream derived from that talent

Point (ii) is of particular significance given that owners had repeatedly asserted (and still do to this day), a set of claims that we might characterise as the "competitive balance defence". This defence is also clearly articulated by Rottenberg in relation to the reserve rule:

> "the defense most commonly heard is that the reserve rule is necessary to assure an equal distribution of playing talent among opposing teams; that a more or less equal distribution of talent is necessary if there is to be uncertainty of outcome; and that uncertainty of outcome is necessary if the consumer is to be willing to pay admission to the game. This defense is founded on the premise that there are rich baseball clubs and poor ones and that, if the players' market were free, the rich clubs would outbid the poor for talent, taking all competent players for themselves and leaving only the incompetent for other teams." (p. 246)

In his early life Rottenberg was socialist. Before the Second World War he belonged to Young People's Socialist League and was somewhat sympathetic to communist regime in the Soviet Union (Henderson (1999), p.230). One wonders therefore what he made of the monolithic hierarchies that govern the major sports outside the United States. In the European sporting model, as articulated by the European Commission, the following key characteristics can be identified:

(i) sport is organised and governed at regional, national and international level by federations that wield supreme authority over the management of sport
(ii) amateurs play alongside professionals, with the former often taking leading roles within the hierarchy. As a result commercial motivations are less important and even frowned upon
(iii) there is a strong emphasis on the role of nationality in competition and the state itself is closely involved in the organisation and funding of sport
(iv) within the hierarchy, sports teams are both upwardly and downwardly mobile thanks to the institution of promotion and relegation

(see European Commission (1998, pp 2-5). One suspects that the early Rottenberg might rather have admired this system, while the later Rottenberg would have thought it smacked a little too much of central planning for his tastes. More importantly, however, we can infer from what he said about the American system that he would have made three observations about the nature of competition in the league

(i) the promotion and relegation system would approximate to free entry and would therefore be likely to ensure that "the socially appropriate quantity of resources would be employed in the production games" (compare Rottenberg (2000) p.13).
(ii) if the absence of profit maximising motives truly leads to a commitment to spend available resources on improving team performance (rather than the siphoning off of profits by managers and the members of the governing hierarchy, as for example, seemed to occur in the Soviet Union) then the investors in the clubs "make gifts to consumers of professional sports games who are permitted to observe games on the cheap" (ibid). To the extent that these investors are private individuals who freely choose to do so "it does not violate the principle of social maximisation" (ibid). However, if such subsidies derive from the state, he would likely observe that such subsidies might be socially inefficient.

(iii) Within such a system the invariance principle would not hold: assuming clubs spend all spare cash they receive on playing talent, then a small club that owns the property right over a player will not trade that player to a richer rival, whereas under free agency the player will choose to move to the high paying richer club. However, he might also observe that free agency would be socially efficient, since players would migrate to where their social product was highest, whereas under a reserve system there the marginal social returns to talent would be lower than at the richer clubs, and therefore there would be "too much" competitive balance under a reserve system.

European football in the last fifty years

(i) Football in 1956

Fifty years ago European professional football was still a largely national affair. Domestic leagues were the principal form of competition, and the only serious form of international competition was the World Cup, and this was still a relatively small affair. Most fans knew little about football in other countries, and although the 1954 World Cup was the first to be shown on TV, at this date TV penetration in Europe was only in the region of 10%. Since the beginning of the 20th century players had been internationally mobile, but such movement was relatively rare. Countries like England did not welcome foreign players and others, like Germany, were still operating amateur leagues. However, there was already a traffic in players from South America to Europe, notably Argentinians and Brazilians playing in Spain and Italy. Within national leagues economic resources were relatively evenly distributed, largely because there was very little money to be made at all. Broadcasting was still in its infancy, ticket prices were very low and merchandising and sponsorship unheard of. The player market was controlled through the European equivalent of the reserve clause and wages were typically very low. Some players were still amateurs, and even professionals often worked in alternative jobs during the summer to supplement their income. In some countries, such as England, wages were held down to a maximum agreed by the clubs, which was roughly equivalent to the wage of a skilled manual worker.

At this time probably the majority of clubs in the top national leagues were still clubs in the original sense of the word- organisations run and controlled by committees elected by the members, with membership open to anyone willing to pay the membership fee. It is true that in England the dominant organisational form was the limited liability company, but this route had been taken mainly

Table 1

Domestic champions in the big five countries 1947-2006

Period	England	France	Germany	Italy	Spain
1947-1956	Man Utd (2) Portsmouth (2) Arsenal (2) Liverpool Tottenham Wolves Chelsea	Nice (3) Reims (3) Roubaix-Tourcoing Marseille Bordeaux Lille	Kaiserslautern (2) Stuttgart (2) Borussia Dortmund Nürnberg Mannheim Hannover Rot-Weiß Essen No competition (1947)	Torino (3) Juventus FC (2) Internazionale (2) Milan AC (2) AC Fiorentina	Barcelona (4) Real Madrid (2) Atlético de Madrid (2) Valencia Athletic de Bilbao
1957-1966	Man Utd (2) Wolves (2) Liverpool (2) Tottenham Burnley Everton Ipswich	Reims (3) Monaco (2) Saint-Étienne (2) Nantes (2) Nice	Borussia Dortmund (2) Köln (2) FC Schalke Eintracht Frankfurt Hamburger Nürnberg Werder Bremen 1860 München	Juventus FC (3) Internazionale (3) Milan AC (3) Bologna	Real Madrid (7) Barcelona (2) Atlético de Madrid
1967-1976	Derby (2) Leeds (2) Liverpool (2) Everton Arsenal Man City Man Utd	Saint-Étienne (7) Marseille (2) Nantes	Borussia Mönchengladbach (4) Bayern München (4) Braunschweiger TSV Eintracht Nürnberg	Juventus FC (4) Internazionale AC Fiorentina Cagliari SS Lazio Torino Milan AC	Real Madrid (6) Atlético de Madrid (2) Barcelona Valencia
1977-1986	Liverpool (7) Notts Forest Aston Villa Everton	Nantes (3) Monaco (2) Bordeaux (2) Strasbourg Paris Saint-Germain Saint-Étienne	Bayern München (4) Hamburger SV (3) Borussia Mönchengladbach Köln Stuttgart	Juventus FC (6) Internazionale Milan AC Hellas Verona AS Roma	Real Madrid (4) Athletic de Bilbao (2) Real Sociedad (2) Barcelona Atlético de Madrid
1987-1996	Man Utd (3) Liverpool (2) Arsenal (2) Everton Leeds Blackburn	Marseille (4) Paris Saint-Germain Bordeaux Monaco Nantes Auxerre title not awarded (1993)	Bayern München (4) Werder Bremen (2) Borussia Dortmund (2) Kaiserslautern Stuttgart	Milan AC (5) SSC Napoli (2) Internazionale Juventus FC Sampdoria UC	Real Madrid (5) Barcelona (4) Atlético de Madrid
1997-2006	Man Utd (5) Arsenal (3) Chelsea (2)	Lyon (5) Monaco (2) Bordeaux Lens Nantes	Bayern München (7) Kaiserslautern Borussia Dortmund Werder Bremen	Juventus FC (6) Milan AC (2) SS Lazio AS Roma	Barcelona (4) Real Madrid (3) Valencia (2) Deportivo de La Coruña
Top 3 1947-2006	Liverpool (14) Man Utd (13) Arsenal (8)	Saint-Étienne (10) Nantes (8) Marseille (7)*	Bayern München (19) Borussia Dortmund (6) Borussia Mönchengladbach (5)	Juventus FC (22) Milan AC (14) Internazionale (8)	Real Madrid (27) Barcelona (12) Atlético de Madrid (8)

*Monaco has also won seven titles over this period because those who ran the clubs were concerned about the unlimited liability that they would have to undertake as committee members, not because they aspired to make money, something which, in any case, was forbidden by the English governing body (the Football Association). In other countries some large corporations took an interest in financially supporting a club, but this was largely an investment undertaken in the interests of the workforce in the local town. Examples include PSV Eindhoven supported the Phillips corporation (Netherlands) Sochaux supported by the Peugeot car producer (France), Bayer Leverkusen supported by Bayer (Germany) and Juventus supported by the Fiat car producer (Italy).

The biggest leagues in the European Union are located in the most populous countries: Germany, France, England, Italy and Spain. If we consider which teams dominated these leagues in 1956 (the year the European Community was formed), based on the number of championships won over the previous decade, some familiar names appear.

In Spain, Real Madrid, Barcelona and Barcelona had won 8 championships between them. In Italy, Juventus, AC Milan and Inter had won 6 and in England, Manchester United, Arsenal and Liverpool had won 5. These 9 teams, of course, have dominated their leagues over the past sixty years, and now form between them half of the membership of the G14 group (it actually has 18 members), which lobbies UEFA on behalf of the big clubs. Only in Germany and France had the future G14 members not yet achieved dominance (see Table 1).[3] If we consider the “smaller” countries, most of these have traditionally been dominated by at most two or three clubs. For example, Celtic and Rangers in Scotland; Ajax, PSV and Feyernoord in the Netherlands; Sporting Lisbon, Benfica and Porto in Portugal.

(ii) The evolution of European football

The story of the evolution of European football can be told in a number of ways. Here we will focus on some basic measures: how many people watch football, how much income clubs can generate and, the perennial question, how balanced is the competition?

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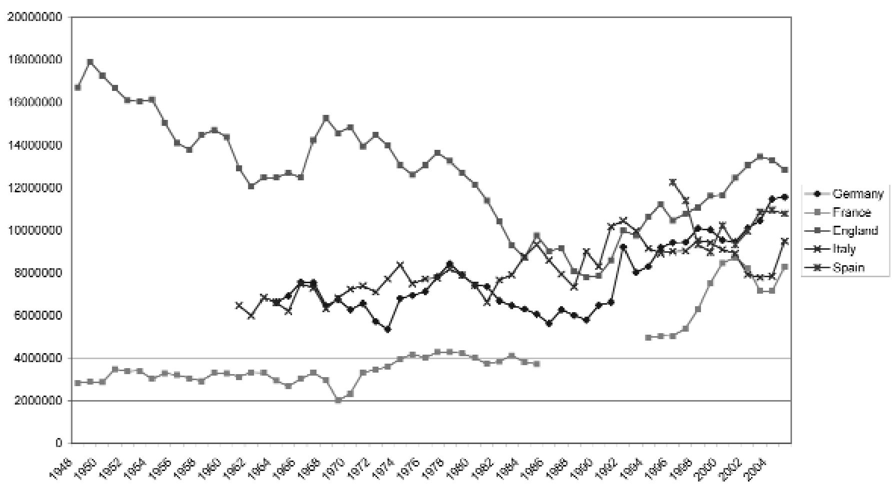
3 Of the other G14 members, Bayern Munich, Borussia Dortmund and Bayer Leverkusen had won the German championship only once in the decade 1947-1956 (but a national league had not yet been formed), Marseille, Paris Saint-Germain and Olympique Lyonnais had also only won one French title (the league being dominated by Nice and Reims who nowadays are also-rans). There are only three G14 members outside the big 5 countries. Ajax and PSV in the Netherlands had also not established their dominance, winning only two titles between them in the decade, but again a national league had only recently been formed. Porto in Portugal had won on one title, seven of the other nine being won by Sporting Lisbon and two by Benfica.

Attendance data going back some time is available for the big five leagues apart from Spain. Figure 1 shows that for these leagues the period between the end of the Second World War and 1990 was a period of stagnation or decline. In England total attendance fell from around 18 million per season at the end of the 1940s to only 8 million per season by 1990. In Germany and France attendance was static, in the 6-7 million range in the former country and the 3-4 million range in the latter. Only Italy registered a sustained increase over the period, from 6 million in 1960 up to 8 million by 1990. By way of contrast, the US major leagues grew rapidly in this period, Major League Baseball increasing attendance from 21 million to 55 million, the National Football League from 5 million to 13 million and the National Basketball Association from 2 million to 17 million.

Since 1990, the English, German and French leagues have enjoyed a significant renaissance. In England attendance increase by more than 50%, from 8 million to 13 million. In France and Germany attendance has doubled- from 6 million to nearly 12 million in Germany and from around 4 million to over 8 million in France. During this same period the rate of growth of attendance in the US majors has on average been slower. Only in Italy has attendance stagnated since the 1990s.

The sale of tickets is of course, one of the fundamental sources of income from a professional sports club. Revenue data for most European leagues is difficult to come by. In England, however, there is data available on football club revenues and wage expenditure over the entire post war era. Between 1947 and 1990 revenues of clubs in the top division grew at an average rate of 4.2% per

Figure 1. *Total annual attendance at top division games*



year in real terms. For sure, this is better than the UK average growth rate over the period, but dismal compared to the US major leagues. If we compare this with the performance of the average club in the major leagues, over the same period MLB income grew at around 4% per cent per year in real terms until 1990, while NFL income grew at around 7% per year and NBA income grew at 10% per year. However, since 1990 income in the top English division has grown at the remarkable rate of 13% per year in real terms. To put this another way, in 1956 the average English first division club had an income of around $3 million measured in today's money, compared to an average of $20 million for an MLB club, $7 million for an NFL club and $2 million for an NBA club. By 1990 the English figure had risen to around $20 million in today's money while the MLB, NFL and NBA figures were $75 million, $68 million and $45 million respectively. Over the last 15 years, however, the English league has caught up in revenue terms with an average equivalent to about $125 million, compared to $142 million for MLB, $167 million for the NFL and $101 million in the NBA.

The causes of this financial resurgence are well known and have been documented elsewhere (see e.g. Kuypers and Szymanski (1999), Andreff and Staudohar (2000), Morrow (2003)). These factors are

(i) Large increases in income from the sale of broadcast rights
(ii) Large increases in advertising and sponsorship income
(iii) A more "commercial approach" to ticket pricing, associated with "gentrification" of football club supporters

Television has probably been the single most important contributor to this transformation. Until the end of the 1980s many national broadcasters in Europe were state owned corporations (like the BBC) and competition was either limited or non-existent. In England clubs were not willing to sell live the right to broadcast live league football until 1983, and when they did so they were paid less than £3 million[4] per season, a negligible sum, to be divided between the 92 Football League clubs. In Germany the rights to show 1.Bundesliga games were worth on DM10 million in the mid 1980s.[5] In 1984 the exclusive right to broadcast both national and international French football was sold for FFr10 million.[6] On this basis it is reasonable to estimate that in

4 Szymanski and Kuypers, p. 56
5 Mikos (2006), p. 145
6 Wahl (1989) p. 331

1985 the combined value of the broadcast right to the big 5 leagues were worth no more than €30 million. According to Deloitte (2005) the combined TV income of the big five leagues amounted over €2500 million in 2003/04. This represents a hundred-fold increase in the space of only 20 years.

The principal cause of this increase was competition from new broadcast platforms. The emergence of satellite and cable technologies, and the desire of the European Union (or, rather, its politicians) to take a world lead in the adoption of these technologies, enabled pay-TV operators to enter the market. They recognised that premium sports rights (along with Hollywood movies) would be the key driver of subscriptions and so were willing to bid unheard-of sums to win these rights. The old terrestrial broadcasters were unable to match these bids because the number of advertising minutes per hour (which is generally decided by regulation in Europe) is much smaller than in the USA and hence rights have a lower commercial value to a terrestrial broadcaster.

During the 1980s there were a series of financial crises in European football (e.g. in England in the early 1980s, In France and Spain in the late 1980s). One response to these crises was to adopt a more commercial approach to football management. The English crisis in 1982 led to decision to allow club directors to be paid a salary (until then they were not permitted to draw a salary), broadcast live matches, to permit shirt sponsorship and ultimately to allow clubs to float themselves on the stock exchange (Tottenham were the first English club to do so in 1983). In countries such as France legal restrictions on commercial activities were relaxed to allow clubs to seek finance from the markets. Another response was to try and regulate sport more closely and to limit the freedom of clubs to operate as businesses (e.g. the creation of the DNCG in France, a committee appointed by the league to inspect the finances of clubs). This tension, between the desire to allow clubs greater market freedom in order to find their own economic solutions, and the desire to regulate the operation of markets in order preserve existing competitors and structures, remains at the heart of the debate over the future of European football.

Many clubs in Europe feared that increased television broadcasting would drive away the fans from attending the game in person. In this the clubs (and many others) seem to have seriously underestimated the power of television to market a product and make it more attractive. As we have seen, attendances in most countries for which we have data have risen since 1990 precisely the time when football started to be given much more exposure on TV. The improved image of the game created new opportunities in the sale of merchandise, particularly club shirts, which have become an essential item for most serious fans. To this extent the European clubs learnt closely from the experience of the Major

Leagues, though in some ways they have surpassed the Americans- e.g. when permitting shirt sponsorship, something that baseball fans would consider sacrilege.

Rapidly rising ticket prices is another characteristic of the new football era. This has driven away many traditional fans (who have been priced out of the market) while bringing in a generation of better heeled fans. As a result both the level of singing and the level of violence at football matches has in general declined.

While it is no doubt the case that the new commercialism has been embraced most fervently in England, the recent emergence of Real Madrid as the richest club in world football, the stock market flotation of clubs in Italy, the Netherlands and Germany and the decision of Canal+ in 2004 to buy the rights to French League football for €600 million per year (the most valuable TV contract in European football), illustrates that the commercial revolution is by no means exclusive to England.

Hand in hand with the growth of income has been the growth in inequality. This is, again, a pan-European phenomenon, but is most easily documented in the English case. Back in 1956 the average income of a club in the first division was £2.2 million, while in the second division it was £1.3 million- a ratio of 1.7:1. By 1965 the ratio had risen to 2.1: 1 and by 1980 to 2.6:1. In 1990 the ratio stood at 3:1 and by 2004 it had reached 5.4: 1.[7] Comparison at almost any level shows the same kind of increasing inequality of distribution of economic resources.

Again, there are several well-known explanations for the growing gap

(i) Television has made people more aware of differences in quality, and has therefore skewed demand in favour of the strongest teams
(ii) Broadcasters pay many times more for the rights to broadcast matches in the top division than in any other, creating greater inequality
(iii) The popularity with TV viewers of European level competition, notably the UEFA Champions League, to which only the strongest teams have access. These teams obtain substantial additional revenues from these competitions
(iv) The absence for the most part of revenue redistribution mechanisms such as gate sharing. There is some sharing of revenues from collectively sold TV rights, but even this money is not always equally shared.

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7 Calculations based on Szymanski and Kuypers data appendix and Deloitte (2005).

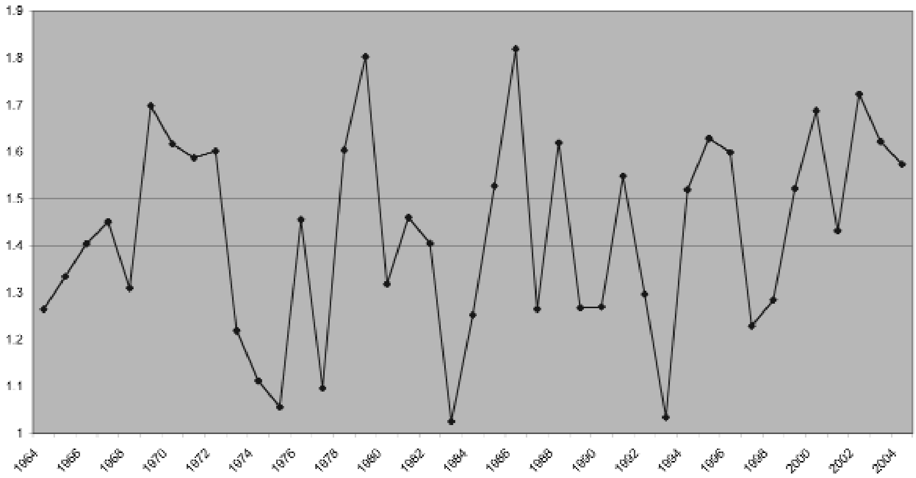
Inequality in income has been reflected in inequality in spending on players. It is well established that in European football markets there is a strong correlation between playing success and spending on player salaries (see e.g. Szymanski and Smith (1997) and Forrest and Simmons (2002)). Moreover, football clubs continue to spend almost everything they earn on player salaries. There is little evidence that the adoption of more commercial activities has caused football clubs to act more like profit maximisers- this may either be because the new commercialism has not brought with it credible financial restraints[8] or because the promotion and relegation system creates such a competitive environments that clubs cannot afford to distribute dividends. Thus inequality in income has translated more or less directly into inequality in the strength of playing squads, a trend notoriously illustrated by Roman Abramovitch, the owner of Chelsea football club. Since buying the club in 2002 he is said to have spent in the region of $800 million (out of a personal fortune estimated at somewhere in region of $20 billion) on assembling a squad to dominate European competition.

Given the scale of the increase in financial inequality, it is therefore surprising to find that inequality on the field does not appear to have dramatically deteriorated. The standard measure in inequality used in the literature is the Noll/Scully measure of the standard deviation of winning percentages relative to the standard deviation of winning percentages assuming each team is equally likely to win each game. Figure 2 shows the trend in this measure for the case of the top English division. While it might be argued that there is a slight upward trend in the last few years of the data, it is barely significant. Moreover, the average value of 1.4 compares quite favourably with the American leagues (a lower value indicates more balance) where values of 2 and over are quite common. However, the problem with this measure is that it only reflects variance within the season, it says nothing about the dominance by the same teams over time.

As can be seen from Table 1, there does appear to be some increase in the frequency with which the big teams win in recent years. There have always been dominant teams. Consider Real Madrid's 7 titles in the decade 1957-66, St.-Etienne's 7 titles between 1967 and 1976, Liverpool's 7 and Juventus' 6 titles in

8 It remains politically inconceivable that any major European club could be allowed to disappear entirely. Usually when a club is bankrupt a way is found to re-launch the club with new backers after writing off the debt. There are hardly any examples in Europe of clubs of any size being allowed to be wound up altogether- although in 2005 the 115 year old Swiss club, Servette, which had never been relegated from the top division and had been Swiss Champions 17 times, were wound up following bankruptcy.

Figure 2. *Standard deviation of winning percentages relative to competitive balance ideal English top division 1964-2004*



the decade 1977-86. But fewer teams win championships nowadays than in the past. In the decade 1947-56 there were 31 different teams across the five countries that won the national championship; by the decade 1997-2006 there were only 20. In the closed North American leagues most teams in the league end up winning eventually. In the open European leagues, although in theory there very large numbers of teams that could win, in practice only a small subset do so (see Buzzacchi et al (2004)). This magic circle seems to be getting smaller.

There is another sense in which inequality in European football has been increasing. Proper competition between clubs in different European countries started back in 1956. Initially this form of competition involved simply the champions from each country. However, this form of competition, which gave fans the rare opportunity to see the top stars playing in other countries, soon became extremely popular with TV audiences and expanded significantly. In 1993 the desire to create more games among the best teams led to the creation of the European Champions League (to replace the knock-out format that had hitherto existed). Since most of the money generated by this competition came from TV contracts in the big five countries, clubs from these countries lobbied for a larger share of the rents, and in 1997 UEFA granted these countries up to 4 places in the tournament, in contrast to the single place they had formerly received. As a result, big clubs in big countries saw a significant boost to their income, while clubs from smaller countries found it harder to compete. For example, in the three decades between 1967 and 1996 43% of to semi-final places in the top European club competition were taken by teams from the big 5 countries, while in the last decade they have taken 90% of the places. This has little to do with the increasing strength of their squads, and much to do with their share of places in the competition increasing from 13% at the beginning of the 1990s to nearly 50% by 2005.

Where do we go from here?

There is in Europe today a struggle for the control the future of football. This struggle is itself a microcosm of the struggle within Europe over the future direction of the European Union. Article 2 of the Treaty of Rome, the founding document of the European Union, states

> The Community shall have as its task, by establishing a common market and an economic and monetary union and by implementing common policies or activities referred to in Articles 3 and 4, to promote throughout the Community a harmonious, balanced and sustainable development of economic activities, a high level of employment and of social protection, equality between men and women, sustainable and non-inflationary growth, a high degree of competitiveness and convergence of economic performance, a high level of protection and improvement of the quality of the environment, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States.[9]

In other words, the project of the European Union is to create equality, social protection, cohesion and solidarity *by* the establishment of a common market. There can be no doubt that the member states of the European Union have achieved substantial economic progress thanks to the elimination of borders within the EU and subsequent competition. However, there are many who would argue that the free (i.e. common) market is unlikely instrument through which to achieve the goals of harmony, balance, equality, cohesion and solidarity. The rejection of the European Constitution by the French electorate and the recent protests over plans to create more employment flexibility illustrate the fact that many Europeans do not believe that the single market can deliver social protection, and they look to their national governments to defend them from the European Union, rather than the other way around.

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[9] See the Annexe below for the text of articles 3 and 4.

As in the wider economy, so in football. The hierarchy of European football gave primacy to national associations, but these organisations are the ones that are most threatened by the single market. The Bosman judgment in 1995 represented a frontal assault on the power of the national associations. It forced the national authorities to accept as a fact something that had always been plainly true in law, namely that no organization, however well intentioned, had the right to obstruct the free movement of labour across EU borders.

Going forward, there seems a clear choice between the preservation of national institutions and the creation of a single European market, in almost all of the principal issues facing European football today:

(i) The Champions League versus the domestic league

The UEFA Champions League has been enormously successful. Since it began in 1993 total TV income has increased more than ten-fold, and the current annual income of $670 million makes it the most valuable football league in terms of broadcast rights in the world. There is no doubt that the big clubs view success in the Champions League as their primary objective, and these clubs now derive around 10% of their income from the broadcast money alone. The big clubs also see the Champions League as a means to extend the reach of their marketing and merchandising operations both within Europe and globally. For teams with a national base, it is the one sure way of reaching an international audience.

The Champions League has been widely blamed for the growing dispersion of incomes between clubs and the growing inequalities between clubs from big countries and from smaller countries. There is a fear that the big clubs would like to separate altogether from the domestic championships and focus only a European competition, a view expressed in a document leaked from the G14 in March 2006. In particular there is concern that the big clubs would like to create a closed system to permanently cement their dominance. This would, of course, look almost exactly like a US major league.

(ii) Club versus country

Competition between national representative teams has always been an important part of the fabric of football. The governing bodies of football are funded out of the revenues from the sale of broadcast rights to competitions between national representative teams, notably the FIFA World Cup, the most popular sporting competition in the world, and the UEFA European championship. The national federations have used some of this money to subsidise the development of the game in Africa and Asia, where football has been notably more successful in spreading its influence than have the US majors. The profitability of these tournaments for the national federations is enhanced by the fact that they pay no compensation to the clubs that employ the players, release for international duty being a condition of membership of the federation. So profitable is such competitions for the federations that Sepp Blatter, the President of FIFA, has talked about expanding their number.

The big clubs are unhappy to see their principal investments being used without compensation and with the real prospect that the player may sustain a serious injury while on international duty. Moreover, these clubs increasingly question the value of international representative competition, when they are able to supply a galaxy of international stars in an international competition based around clubs rather than countries. In 2005 the G14 decided to sponsor a commercial challenge to this situation in a Belgian arbitration court. Ultimately, these clubs may consider refusing to permit their contracted employees to take play for their country.

(iii) Competitive balance, solidarity and financial stability

Those who are concerned about the growing power of the big clubs and the dominance of the Champions League also express deep concern over the trend in competitive imbalance. As we have seen, the evidence suggests that (a) European competition has always been highly unbalanced, (b) while there may have been some increase in competitive imbalance in recent years, the increase is rather small and (c) there is strong evidence of significant growth of demand in recent years, suggesting that competitive imbalance is not driving away the fans. Nonetheless, those who are concerned about competitive balance argue that if current trends continue, the health of the entire game will be undermined. These people want to see a redistribution of resources from the big clubs to the rest (solidarity). The big clubs, however, are not keen to see redistribution which might reduce their financial power and therefore their ability to remain in European competition. It seems likely, however, that if these clubs were able to form a closed European superleague, they would indeed be willing to share resources among themselves, just as is the clubs in the US majors do.

From the perspective of the big clubs, it might well be the case that competitive imbalance is increasing in the domestic leagues, but they might view that as an indicator that domestic competition is no longer so attractive. As far as they are concerned, increasing imbalance in some competitions does not destroy football as a whole, only some kinds of football. They might be happy to see domestic competition wither, enabling them to concentrate fully on the European level.

In recent years smaller clubs have become more and more prone to financial distress. For example, in England between 1999 and 2004 there were 22 Football League clubs (out of a total of 72) that went in administration, a form of insolvency proceeding intended to stave off bankruptcy (similar to the Chapter 11 procedure in the US). In other countries, notably Belgium and Italy, many clubs seem to be technically insolvent. Such events are a consequence of poor financial management. However, bad decisions are usually driven by the attempt to compete with rivals at a higher level. Those who demand greater solidarity also tend to want a situation where these smaller clubs really would be able to compete with their larger rivals.

(iv) Player mobility

Those who are concerned by the dominance of the big clubs are also concerned that these clubs can simply buy on the international market the best talent developed anywhere in the world. This, they fear, may undermine the national teams in the rich countries and the national leagues in the poorer countries. Therefore they would like to see the creation of limits to player mobility, to encourage the development of domestic talent in big countries and domestic leagues in smaller countries. This means both the requirement that clubs invest in training and that opportunities are created for the development of players to represent the national team.

(v) Club objectives

There has long been a belief that football clubs in Europe are "utility" or win maximisers, in contradistinction to American clubs that are assumed to be profit maximisers. If big clubs want to restructure competition to generate more income, to control their players or keep more of their income for themselves, then this may be a consequence of a more profit oriented outlook. There is no doubt that the large increases in income generated by clubs over the last 20 years has required a more professional management structure to be adopted. But is the profit motives acceptable in professional football? Some would

> argue that football should be protected from the profit motive, precisely because the profit motive is the most likely agent of change. This debate has been brought into sharp focus by the takeover of Manchester by the Glazer family. Not only are they Americans who own a team in the NFL, but few also doubt that they are motivated by profit and would therefore be willing to undertake any restructuring if it were to lead to an increase in profit.

In each of these cases there is conflict between the view of Europe as a series of interconnected national markets and as a single market. To be sure, there are some issues that cut across this debate- for example issues over doping and match fixing. In a sense those issues are no different than they are in the US majors. The principal issue in European football, however, is whether the structure of European football becomes more like the US majors or goes back to something more like was in the 1950s.

To put it another way, the issue is one of whether it is better to protect *competition* or *competitors*. Protection of competition means allows firms to do what they see is in the best interests of their business, i.e. their customers, even if this causes their rivals to go bankrupt.[10] Protection of competitors means ensuring that certain firms stay in business, regardless of whether the consumers would choose to buy the product in the absence of protection. This issue lies at the heart of the European project. In some cases we do protect competitors- as, for example, in the case of the Common Agricultural Policy. In others, we allow uncompetitive firms to go to the wall.

In those cases where competitors are preferred over competition, the argument is usually one based around culture. Activities such as agriculture and audiovisual industries come in for special protection because they have something to do with the "European way of life". Some see the structure of European football as being another example of our distinctly European cultural heritage, and demand protection on the same grounds. At the end of 2005 the European Union commissioned a study to investigate ways of strengthening "The 'European sports model': The central role of the football authorities independently to govern the sport while respecting the European and national legal frameworks and in harmony with the EU institutions and member states"

10 It is, of course, illegal to drive competitors into bankruptcy for its own sake. The difference is this: if a rival goes bankrupt because your product is better, then this is legal competition, if you simply pay to put them out of bussiness, then that is an illegal predatory act.

(http://www.independentfootballreview.com/terms.html). In other words, the aim of this review is to maintain the existing structure and resist perceived threats to the European model.

What is the future of European football? Several years ago I wrote an article with Tom Hoehn entitled "The Americanization of European Football". In this article we argued that there was the potential to increase consumer welfare substantially by creating a format that preserved the most important domestic rivalries while ensuring more competition between the big European clubs that employ the most talented players. In a rational world, there would be agreement through negotiation among all the interested parties to ensure that sports fans were supplied with the most attractive possible product, and then to agree some reasonable division of the spoils. My feeling is that we were right about the attractiveness of international club competition, and that the big clubs are straining to create a format that will deliver more of this kind of competition. However, the football world is not noted for its conformity to the principles of rationality. Instead, we appear to have reached a stage where there are two entrenched camps, one advocating change, the other resistant to all change. These two camps are fighting their corners, either in the courts or with the politicians. The outcome of this conflict will tell us as much about the future of Europe as it will about the future of football.

Annexe: Articles 3 and 4 of the Treaty of Rome.

Article 3

1. For the purposes set out in Article 2, the activities of the Community shall include, as provided in this Treaty and in accordance with the timetable set out therein:
   - (a) the prohibition, as between Member States, of customs duties and quantitative restrictions on the import and export of goods, and of all other measures having equivalent effect;
   - (b) a common commercial policy;
   - (c) an internal market characterised by the abolition, as between Member States, of obstacles to the free movement of goods, persons, services and capital;
   - (d) measures concerning the entry and movement of persons as provided for in Title IV;
   - (e) a common policy in the sphere of agriculture and fisheries;
   - (f) a common policy in the sphere of transport;

(g) a system ensuring that competition in the internal market is not distorted;
(h) the approximation of the laws of Member States to the extent required for the functioning of the common market;
(i) the promotion of coordination between employment policies of the Member States with a view to enhancing their effectiveness by developing a coordinated strategy for employment;
(j) a policy in the social sphere comprising a European Social Fund;
(k) the strengthening of economic and social cohesion;
(l) a policy in the sphere of the environment;
(m) the strengthening of the competitiveness of Community industry;
(n) the promotion of research and technological development;
(o) encouragement for the establishment and development of trans-European networks;
(p) a contribution to the attainment of a high level of health protection;
(q) a contribution to education and training of quality and to the flowering of the cultures of the Member States;
(r) a policy in the sphere of development cooperation;
(s) the association of the overseas countries and territories in order to increase trade and promote jointly economic and social development;
(t) a contribution to the strengthening of consumer protection;
(u) measures in the spheres of energy, civil protection and tourism.

2. In all the activities referred to in this Article, the Community shall aim to eliminate inequalities, and to promote equality, between men and women.

Article 4

1. For the purposes set out in Article 2, the activities of the Member States and the Community shall include, as provided in this Treaty and in accordance with the timetable set out therein, the adoption of an economic policy which is based on the close coordination of Member States' economic policies, on the internal market and on the definition of common objectives, and conducted in accordance with the principle of an open market economy with free competition.
2. Concurrently with the foregoing, and as provided in this Treaty and in accordance with the timetable and the procedures set out therein, these activities shall include the irrevocable fixing of exchange rates leading to the introduction of a single currency, the ecu, and the definition and conduct of a single monetary policy and exchange-rate policy the pri-

mary objective of both of which shall be to maintain price stability and, without prejudice to this objective, to support the general economic policies in the Community, in accordance with the principle of an open market economy with free competition.

3. These activities of the Member States and the Community shall entail compliance with the following guiding principles: stable prices, sound public finances and monetary conditions and a sustainable balance of payments.

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