National Pastime: How Americans Play Baseball and the Rest of the World Plays Soccer.
SZYMANSKI, Stefan, ZIMBALIST, Andrew.
Washington, D.C.: Brookings Institution Press, 2005, 263 pages.

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Why doesn't everyone in the world play cricket? How has soccer risen to sporting dominance around the globe, while baseball remained America's pastime? What can soccer and baseball leagues learn from one another? These questions, and many others, are addressed in this microeconomic analysis of these two beloved games.

As Szymanski and Zimbalist explain, the growth and success of soccer worldwide, and baseball in the United States, were not inevitable, or even obvious, outcomes. Cricket had a hundred-year head start as an organized sport, and more importantly was played by the aristocracy of the world's undisputed superpower of the age. Yet in the late nineteenth century, socioeconomic factors would come into play leading the English to become enamored of soccer, while their colonial descendants in America took to baseball.

In the preface, the authors state that their aim is to "…emphasize the ways in which the different traditions of each sport have generated different possibilities for their commercial organization and exploitation" (p. xi). While this objective is somewhat vague, they do go on to explain that through a "systematic" comparative study of the two sports, they hope that the organizers and fans of both will recognize that soccer and baseball have learned from each other in the past and can continue to learn from one another in the future.

Baseball and soccer leagues are both spin-offs of cricket, which in 1787 became the first modern team sport to have a rule book and governing body (p. 12). While baseball fans today would have little difficulty accepting that their sport had developed from a game that involved hitting a ball with a bat in order to score runs, soccer aficionados might not see the same obvious connection. Yet the emergence of cricket as England's first national sport, with organized competitions among clubs and rampant spectator interest (often driven by gambling), laid the foundation for soccer's future. In addition to its rules and organization, cricket stood apart from other contemporary sports due to its connection to the English school system, which adopted the game into its educational curriculum, thus infusing the game in children early on (p. 14). At the same time, the game was a reflection of the Industrial Revolution in England, with players, organizers and fans systematizing and attempting to optimize it. By the second half of the 1800s, cricket had become firmly established within the empire and was being played from Australia to North America. This model would be emulated by both baseball and soccer alike.

Across the Atlantic, baseball clubs began springing up across the United States in the early 19th Century, leading to the founding, in 1876, of the National League (NL), which still governs the sport today. From the beginning, baseball's organizers recognized the sport's commercial potential and were determined to exploit it. In contrast to the cricket and soccer clubs of England, America's game quickly embraced professionalism, with players signing contracts tying them to a club, and clubs seeking to develop exclusivity within markets in order to benefit from monopolistic behavior (p. 30).

In fact, just three years after its founding, the NL set an economic precedent by introducing a "reserve clause" into player contracts, whereby at the end of the labor agreement between club and athlete, the club still retained the rights to the player, preventing him from freely negotiating with other clubs. Ostensibly, the league claimed, this clause was required to keep salaries "in check" and to maintain the sport's profitability. And for nearly 100 years, despite the emergence of antitrust precedents in other fields, the American courts agreed. Yet in practice, this clause restrained trade and allowed profits to accrue to club owners, rather than to players. This decision had a major impact on other sports, from basketball to hockey in the United States, and soccer worldwide, in which reserve clauses became the norm.

In its infancy as an organized sport, though, soccer chose to follow a different path. While having been played informally (and concomitantly with cricket) in England for centuries, it was finally structured as a modern team sport in 1863, with the founding of the Football Association (FA). Unlike its American cousin, though, the game remained largely an amateur pursuit, with the FA playing the role of arbiter, rather than a profit-seeking entity, resulting in two important developments for the sport: (i) clubs were able to form all over England, and subsequently all over the world, without the monopolistic and oligopolistic constraints that the NL had created for baseball; and (ii) relatively little money was transacted among players or clubs (p. 46).

England’s pastime quickly benefited from the fact that it was being played throughout the British Empire, which provided an ideal distribution channel for expatriates to take the game with them wherever they traveled and introduce it as a sport for one and all (p. 54). Unlike cricket, soccer was easy to understand, required little equipment, and could be played just about anywhere. England’s proximity to other nations, in contrast to America’s isolation, resulted in a spread of soccer clubs throughout continental Europe. Further afield in South America, where British economic interests were strong, soccer was likewise introduced and adopted. As a result, by 1904, there were enough clubs in enough countries to warrant the creation of an international soccer federation – FIFA – albeit, initially, without England’s participation. Thus, in less than 50 years from the FA’s founding, soccer had spread around the globe, and international matches had become commonplace.

In America, though, while baseball was growing, the authors point to at least three factors that kept it from going global. First, like cricket, it had more complex rules than soccer. Second, the amateurs had made way for the professionals, turning the sport into a business. And third, despite growing clout in the region, America was still a former colony, and not yet a global superpower with economic and political influence around the world.

Baseball's organizers, however, were well aware of soccer (the converse was also true) and recognized its growth in popularity worldwide. They made attempts to promote the sport by traveling around the world playing exhibition games, but they lacked three key ingredients for success: there were not as many American expatriates as British worldwide to foster continual development; the local population in foreign countries did not feel the same desire to emulate the Americans as they did the British; and foreign spectators of baseball did not push their respective national teams to improve to the point where they could outplay the inventors of the game (Japan being a notable exception to these latter two points) (p. 64).

In baseball, much of today's player market is a reflection of economic decisions made 130 years ago. The institution of a reserve clause in player contracts set the stage early on for the dynamic between players and clubs (p. 87). By 1887, teams had a reserve list of up to 14 players, which limited their freedom to move to other clubs and artificially kept salaries low. Additionally, the number of clubs was tightly controlled, providing each major-league team with bargaining power. Of course, new leagues sprung up to try to compete, but most remained "minor" and focused on developing players that could be sold to the National League. One of these minor leagues stepped up to the plate at the turn of the century and declared that it was ready to compete with the majors – and so was born the American League (AL). The emergence of another big league was good news for players, providing them with more leverage in contract negotiations, but the NL was quick to recognize the threat that the AL posed and moved to reach an agreement, which resulted in the formation of Major League Baseball (MLB) and the creation of the World Series.

MLB soon sought to control its players' future and succeeded when the league's power was institutionalized by a landmark Supreme Court ruling in 1922 which held that baseball was not engaged in interstate commerce, and, as such, was not subject to antitrust laws. This decision meant that clubs could wield their monopolistic power and not have to worry about players taking them to court for unfair labor practices (p. 94). This one-sided system remained intact for over 50 years, until players and owners finally reached an agreement in 1976 establishing the first unrestricted free-agency system. Free agency enabled players to offer their services to any team (and receive competitive bids for their services), after putting in six years of service for one major league club. The change has been substantial. While average salaries were $ 51,501 in 1976, they had risen to $ 2.37 million by 2003 (p. 97).

Historically, soccer salaries have paled in comparison. As far back as the 1920s, wide gaps between player salaries in the two sports have existed: America's star at that time, Babe Ruth, commanded an annual salary of $ 70,000, while his counterpart in England – Dixie Dean – earned the equivalent of a mere $ 2,000 (p. 99). One obvious explanation for this discrepancy has already been mentioned: the limited number of professional teams in one league in the United States versus the plethora of amateur soccer clubs and leagues around the world. Additionally, the English Football League had decreed a maximum-wage rule, which typically was set to mirror the earnings of a skilled manual laborer. The system that the league developed in the 1880s bore a striking resemblance to baseball's reserve clause, which is not surprising, considering that the objective was the same – to prevent clubs from enticing top players away by offering inflated wages. This was reinforced by rules requiring permission for a player to transfer from one club to another and threatening expulsion for any team that disobeyed (p. 102). In fact, by 1900, a system was firmly in place in which clubs could only hire a soccer player with the consent of his existing club, at a fee negotiated by the clubs, with wages agreed upon between the player and employer (p. 102).

In England, and around the world, soccer was nominally considered an “amateur” sport, which in many ways it was. Clubs were run by the social elite, and members paid a subscription fee to belong (p. 106). However, the upshot for club owners was a convenient excuse for limiting player income in order to ensure that the latter remained amateurs. In the 1920s, FIFA and the FA reached an agreement regarding the international transfer of players in which the national associations of each country had to approve the deal. This control over international trade helped further limit salary growth.

After World War II, economic growth spurred greater investment in soccer leagues. International matches became more common, promoted further by television in the 1950s and 1960s. By the 1960s, the proceeds from trading players were beginning to bring in substantial sums of money; in some cases, sufficient to finance the building of new stadiums (p. 112). Yet almost no countries outside of the United States had a competition-law system that would allow players to challenge the status quo. In many countries, soccer was (and still is) controlled by informal networks with political connections that have a bigger say in the sport’s development than the rule of law (p. 113).

With the strengthening of the European Union (EU), though, things began to change. The organization’s commitment to the free movement of labor among its member states had a major impact on soccer. Numerous negotiations, agreements and rulings came and went, generally leading to fewer restrictions on player movement among teams and countries. Added to this, in the 1990s, were major television contracts providing revenue enabling clubs such as Real Madrid to pay £ 13 million for Brazilian star Ronaldo in 1992, and £ 46 million for France's captain, Zinedine Zidane, just nine years later (p. 115). While in the 1950s, clubs spent roughly 20-30 percent of their income on player salaries, in recent years this figure has jumped to 50-70 percent – a boon to individual superstars, but trouble for the game's finances as a whole.

Baseball club owners, for their part, like to claim that their sport is similarly in dire financial straits, but the authors assert that all evidence points to the contrary. Major League Baseball outlasted its last serious competitor in 1915 and since then has enjoyed an unquestionable monopoly over the sport in the United States. Baseball clubs have no competition from new teams, and the sport is not subject to government regulation. As such, the rules of the competitive market do not apply (p. 119).

Most team owners mix their baseball business with other companies that they own, focusing on the overall profitability of their portfolios in which their teams are just one of many investments (p. 120). They use related-party transactions to trade with themselves in order to hide the true gains from the sport. The advantages of this accounting practice include: i) reducing tax liabilities; ii) securing public support for financing their facilities; iii) improving their bargaining position when negotiating with players; iv) protecting their antitrust exemption; and v) justifying higher ticket or concessions prices (p. 121).

Soccer-club owners, for their part, face a much more competitive system than baseball as a result of open entry for new teams and the promotion and relegation system. Soccer's competitive structure has limited the ability of most clubs to earn money, leaving success accessible to a few top teams (p.130). Additionally, there is no demand for teams to relocate to new cities, because there is nearly a team in every town, and new ones are able to form at any time. Another difference is that local governments tend to be involved in soccer clubs, investing in their development and infrastructure and retaining some control in many instances. Club owners tend to focus on the success of their team; however, team success is not necessary tied to financial well-being (p. 134). Instead, in European soccer leagues, most of the variation in team rankings can be explained by the differences in team payroll.

In America, of course, television viewing in the 1950s was the driving force behind changes to the economics of baseball. Whereas radio and television had only accounted for 3% of MLB revenue in 1946, by the 1990s it had climbed to hundreds of millions of dollars (p. 149). In recent decades, cable television has similarly impacted both revenue and competition among networks for games. The league's response to more income has been the development a revenue-sharing system that enables small-city teams to benefit from big-city media revenues; yet the gap between the two markets remains wide (p. 153).

Outside the United States, television revenue historically had less of an impact due to publicly controlled broadcasting, which affected the terms of TV deals with sports leagues. Coupled with this reality was the fact that many soccer clubs initially objected to any TV coverage at all, fearing less attendance at matches (p. 154). However, once the World Cup started to show its matches on television – in 1954 – its success proved to be a fundamental impetus in moving toward the televising of more games. European soccer leagues went from almost no income from live matches in 1990 to generating over $ 2 billion collectively per season by 2000 (p. 156). This change has been revolutionary for soccer worldwide. Broadcasters have influenced the organization of matches, including the start of the UEFA Champions League in 1992 to replace the European Cup and allow more teams to compete.

Yet as revenue growth has increased, so has inequality among clubs. Competitive imbalance is rampant worldwide in soccer. A few countries have tended to dominate international play for three reasons: population, wealth and history (p. 184). At the league level, clubs typically gain competitive dominance by having access to more funds and spending them liberally. Like baseball, television coverage has been seen as a cause of growing imbalance in soccer; yet unlike its American counterpart, the beautiful game does not have a system in place to redistribute income among top and bottom teams. Instead, soccer has relied on the relegation and promotion system, which has its own pros and cons.

Szymanski and Zimbalist purport that most soccer leagues have not needed financial-redistribution systems, because historically there was never much money in the game (p. 189). Since the 1980s, though, this situation has obviously changed. As soccer revenue has increased, the inequality of revenue distribution has also grown. However, the authors claim that this imbalance may not really matter, because, despite historical disparities, soccer has remained popular worldwide, and individual games are still seen as important, since clubs tend to play relatively few of them (p. 191). Yet clubs lagging at the bottom of their leagues, on the verge of relegation, would probably beg to differ.

Most of soccer's financial issues today seem to stem from a short list of explanations: (i) the sport's historical governance hierarchy; (ii) its league-competition system, (iii) its clubs which operate as not-for-profit entities; and (iv) its reliance on political support for investment and bailouts (p. 197). The authors do admit, though, that many of these same reasons explain the game's longevity and success. However, recent changes in revenue structures have forced soccer organizers to deal with new challenges by coming up with new solutions, such as treating clubs like a business. Szymanski and Zimbalist suggest a few other ideas to improve the game's financial health, including the introduction of tighter regulation of team finances; a general restructuring of governing hierarchies; and even the creation of a European soccer league, with regional divisions in which weaker teams would move in and out through promotion and relegation (p. 202). While they do not contend that this structure would be a cure-all, they do believe that it might expand the number of high-profile games, concomitantly enabling the adoption of restraints on economic competition, without forgoing the promotion and relegation system (p. 205).

Even though baseball is financially much better off than soccer, it still struggles with its own issues, such as maintaining and developing a fan base at home and abroad. Having more international players in the majors has been a good first step (p. 206). The league is also looking to soccer for an expansion model based on the World Cup but has faced objections from Japan, because the competition would be organized by MLB; the medal round would be played in the United States; and most profits would go to the league (p. 207). At home, baseball is facing increased competition for supporters, with an aging fan base and fewer children playing in leagues. For instance, whereas over 3.6 million Americans under the age of 19 now play soccer, only 1.75 million are playing baseball, and while soccer just keeps on growing, participation in little-league baseball has continued to shrink (p. 208).

So what are numerous lessons that one can take away from this book? First, soccer and baseball emerged as organized sports in the 19th Century as an outgrowth of cricket, but each was influenced by the cultural attitudes of its country of origin. Soccer was a gentleman's game for amateurs in England, while baseball was a commercial pursuit in America. Despite their differences, the leagues were always aware of one another and at times even imitated each other when making decisions regarding organization and governance. Both sports limited player movement and capped salaries over a century ago; but while baseball understood and accepted its profit potential, soccer has only recently begun coming to grips with its new economic reality. Both sports have seen their organizational economics change through television and advertising contracts. Players have benefited in both cases, but neither sport has achieved an ideal distribution system at the league level. Both sports are currently dealing with serious issues: soccer’s major clubs are trying to overcome financial crises, while baseball is facing stagnation and competition from other sports. In these cases, both have something to teach the other. To improve its profitability, soccer can take a page from Major League Baseball’s book on regulation of club finances and organization of championships. And baseball, for its own long-term stability and popularity, can learn from soccer by developing governance above the league level, with an international body that allows members to focus on non-economic aspects of the game. While the two sports will indubitably continue to develop on distinct paths and deal with their own unique issues, they could do well by paying attention to what their counterpart has experienced and is currently experimenting with overseas.