

Intro to Sports Economics

The Case of US National Soccer Teams

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National Economic Education Delegation

- **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.



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Who Are We?

• Honorary Board: 54 members

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

• Delegates: 651+ members

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

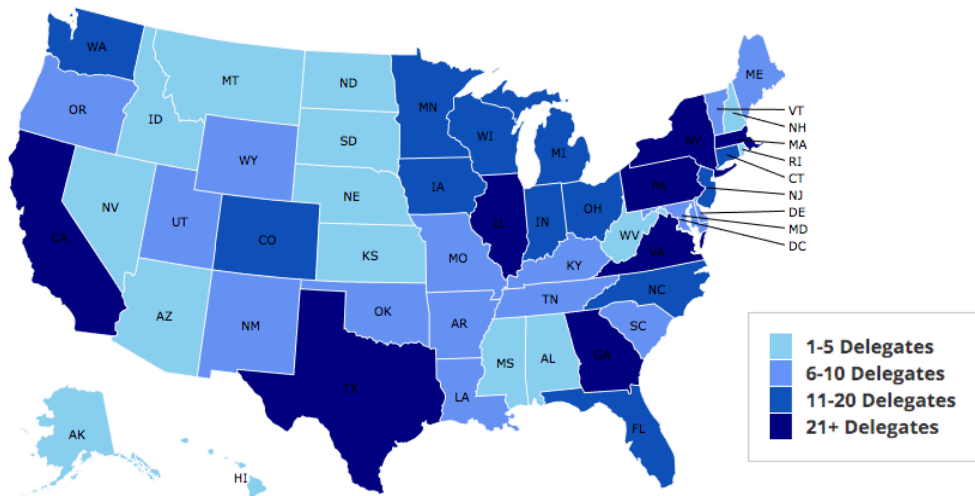
• Global Partners: 49 Ph.D. Economists

- Aid in slide deck development



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Where Are We?



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Credits and Disclaimer

- **This slide deck was authored by:**
 - Kelley L. Cullen, Eastern Washington University
- **Disclaimer**
 - NEED presentations are designed to be nonpartisan.
 - It is, however, inevitable that the presenter will be asked for and will provide their own views.
 - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



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Outline

- **Introduction to Sports Markets**
- **How do sports market differ from other markets?**
- **Peculiarities of sports labor markets**
- **Consider the case of US National Soccer Teams (USMNT & USWNT)**



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What is Sports Economics?

- The application of economic theories & models to the field of sports
- Decision-making by economic agents in sports industries
- Using tools of economics to study sports market outcomes to explain, understand and offer up possible remedies
- Primarily applied MICRO-economic analysis
 - Supply & demand (Product markets & Labor Markets)
 - Costs & benefits
 - Marginal analysis (MC, MR, MU)
 - Utility & contingent valuation



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What do Sports Economists Study?

“Since the science of economics is primarily a set of tools, as opposed to a subject matter, then no subject, however offbeat, need be beyond its reach.” Steven Levitt (Freakonomics author)

- Economic impacts: Olympics & other mega-events
- Economic development: Can building sports infrastructure improve the economy, rather than simply displace local spending?
- Policy issues: How can sports leagues achieve an appropriate level of competitive balance? (Concerns about small market vs. large market teams)
- Labor markets: Understanding player pay



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Economic Importance of Sports

- **Source of GDP (consumption of entertainment service + allied goods and services – souvenirs, clothing, etc. + participation in sports – golf clubs, softball tournaments, bats, gloves, etc.)**
- **Provides jobs for a lot of people in addition to athletes and owners (trainers, marketing & ticket people, parking lot attendants, food service...)**
- **Provides some athletes with opportunity to go to college they might not otherwise get**
- **Don't forget about displaced spending**



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Non-Economic Importance of Sports

- **Builds community pride or identity**
- **Sustains generational connections**
- **Promotes diversity**
- **Health & wellness**



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How sports markets are peculiar?

- Expected Value (a priori) vs. Actual Value (ex post)
- Uncertainty of Outcome
- Mutual interdependence (zero-sum game)
- Heterogeneous products
- Imperfect Information
- Goods & Services Markets: Few suppliers, Many buyers
- Public Goods: Subsidies make fans feel like they have a say in the running of the business

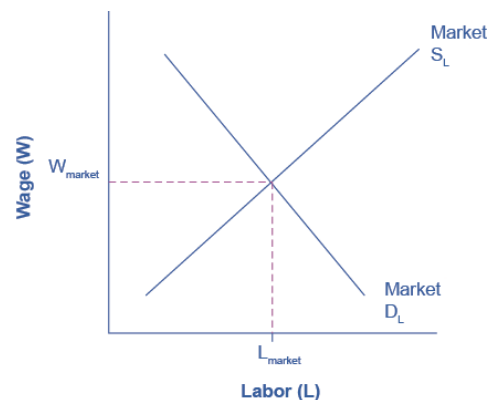


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What competitive labor markets look like

Assumptions of competitive labor markets

- Large number of buyers (firms) & sellers (workers) of labor
- Homogeneity
- Lack of barriers to entry/exit
- Perfect information



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Sports labor markets: Imperfect competition

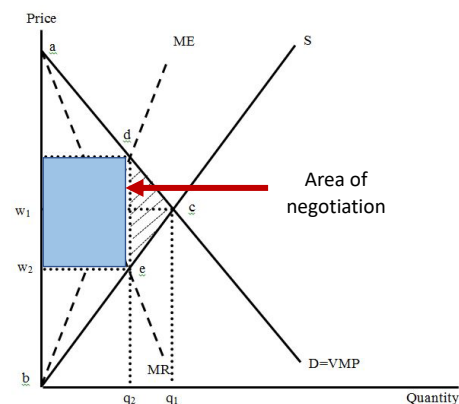
- Monopsony power of owners: Few buyers of talent (cartel behavior)
- Monopoly power of players / union: Few sellers of talent (player's union)
- Because of monopolistic power on both sides of the market, the appropriate economic model is the BILATERAL MONOPOLY



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Bilateral Monopoly Model

- If the market were competitive on both sides, q_1 workers would earn w_1
- Both owners & workers agree to a restricted quantity (q_2)
- If owners have more actual or perceived power (in CBA process), wage would be closer to w_2
- In reality, it gets messy and depends on strength of union (player's association, for example)



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Gender-based wage gaps in sports

- **Labor Demand: Value of the Marginal Revenue Product of Labor**
 - $VMP = MR \times MP$
 - MR = contribution of labor to revenues (wins translate to revenues)
 - MP = contribution of labor to output (effort translates to wins)
- **Whereas MPw could be greater than MPm (more World Cup wins), the MRw could be less than MRm if men’s teams are better at revenue generation (ticket sales, broadcast rights, clothing sales)**



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Labor supply & opportunity costs

- **Labor Supply – opportunity costs (next best alternative)**
 - National Women’s Soccer League (NWSL) base salary \$35,000
 - Major League Soccer (MLS) base salary \$85,000
- **Trinity Rodman, highest paid NWSL player next season \$281,000 base higher than Megan Rapinoe & Alex Morgan \$250,000**
- **Compare to MLS**

2022 MLS Player Salaries <small>As of April 15th, 2022</small>						
First Name	Last Name	Club	Position(s)	Base Salary	Guaranteed Compensation	
Xherdan	Shaqiri	Chicago Fire	M	\$7,350,000.00	\$8,153,000.00	
Javier	Hernandez	LA Galaxy	F	\$6,000,000.00	\$6,000,000.00	
Gonzalo	Higuaín	Inter Miami	F	\$5,100,000.00	\$5,793,750.00	
Alejandro	Pozuelo	Toronto FC	M	\$3,800,000.00	\$4,693,000.00	
Josef	Martínez	Atlanta United	F	\$3,750,000.00	\$4,141,667.00	



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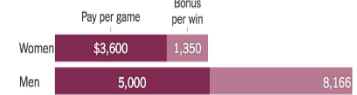
Background on USWNT Lawsuit

- USWNT has won 4 World Cups and the USMNT has won none.
- Yet, there was a significant pay gap between the two teams.
- Historically, men’s games generated more revenues than women’s games.
- **HOWEVER** as pointed out in lawsuit:
- **Women’s Profit (after expenses) in 2016 was \$6.6M**
- **Men’s Profit (after expenses) in 2016 was under \$2M**

How Much Less Are Female Soccer Players Paid?

Members of the United States women’s national soccer team includes several examples of wage discrimination in their complaint to the Equal Employment Opportunity Commission.

Pay per player for each exhibition game



Yearly pay for 20 games



US Women’s National Team Settlement

- **\$22M in back pay to USWNT!**
- **Established two new CBAs through 2028**
 - Equal pay for all competitions, including FIFA World Cup
 - Appearance fees for a friendly game & bonuses for performance same
 - Pool prize money from World Cup appearances with split between teams and federation itself
 - Same framework for sharing in commercial and ticket revenue (50/50 split)
 - Same share of ticket revenue for US Soccer controlled home matches & bonus for sellouts
- **One Nation, One Team**

Thank you!

Any Questions?

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- US Social Policy



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