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### Econtalk Podcast Dealing with Incentives

Professor Sauer and Russ Roberts discuss various topics pertaining to the field of economics that intertwine with the realm of sports including, stadium subsidies, incentives for franchises to win, revenue sharing, in addition to other discussion points over the course of the episode. The goal that all franchises in sports should achieve is to win in their respective league, while making the most amount of profit possible without sacrificing the quality of the team.

What struck me as the most fascinating topic that these two were discussing has to be the idea of achieving competitive balance within leagues in the United States and how that differs from the more capitalistic approach open leagues in Europe take with running their leagues. In addition to this, I really enjoyed the open discussion about the promotion and relegation talk that the Premier League has in place and comparing that to the more “socialist” approach teams in the United States have since all the leagues are exclusive and closed off, so instead, all teams in the league have to cooperate together in order to lift up struggling teams.

Competitive balance is defined as a measure of league parity, a condition of being equal and fair in a contest. In order to keep all players and fans engaged and motivated throughout the entirety of the season, league commissioners strive to achieve a high level of competitive balance as that will retain the greatest number of viewers and overall provide a higher quality product. In leagues in the United States, this competitive balance is brought about by revenue sharing in an

egalitarianist sort of way that normally tends to distort incentive, but in sports leagues, one wants every team in the league to still have some chance to succeed (with different levels of “success” varying from team to team), so teams at the very bottom of the standing still have an opportunity to win big. This top prize has a low chance of happening, but the non-zero chance of it still happening is a great incentive and opportunity for teams to try. In contrast to this, there are open leagues in sports everywhere outside of the United States, and in particular, that of the English divisions of soccer where the number and identity of the teams taking part in the sports league activities can change from year to year due to the performance of the member teams. This means that teams can be promoted from lower divisions of the sport to the top flight as long as they produce good results and the opposite of that is true too. Teams that slack off and are not producing adequate results get relegated and sent down a tier. The closed league system in the United States is usually compared to being a “socialist” approach compared to the “capitalistic” approach of the open league system in Europe, but this is mainly done so that an emphasis is placed upon creating an equal competitive and financial playing field for all teams in the closed league in comparison to open leagues’ favoritism of rich and successful clubs who often generate more revenue and achieve more in the sport as a result. This is to generate and maintain fan interest throughout the season.

On the topic of relegation and promotion, I do enjoy the storylines that teams from the lower divisions can make waves into the leagues they are promoted to, even to the point that they win the entire league. The most recent example of this would have to be Leicester City winning the Premier League back in the 2015-16 season. They were coming off a middling season in the Prem the season prior, only recently being promoted to the top flight that season in 2014-15. Coming into the season, they had 5000-1 odds of winning the competition and their achievement

can be seen as one of the greatest sporting stories of all time, bringing lots of notoriety and attention to some of the key players of that squad such as Jamie Vardy, top goal scorer for the league that season with 24 goals and Riyad Mahrez, recipient of the PFA Players' Player of the Year. There are also lots of cases where teams that historically have done well in the league, have fallen off and lost their status as regular contenders, or even the best team in the league. Teams such as Blackburn, Nottingham Forest, and Leeds United were all teams that were competing at the highest level of this competition but have since then fallen off and are as of this moment either struggling to stay up in the Premiership or not even in the top flight at all.

Overall, I find the balance between keeping all teams as competitively viable as they can fascinating, but I understand the appeal of teams that put most of their faith in owners that go to buy a club out in order to improve it of their own will. This compared to the hyper competitive nature of interleague competition at a college level really shows the ever-changing dynamics of the world of sports intertwined with economics.