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Holding the Line: A Dynamic Salary Cap for European Association Football

At the start of the 2015/2016 English Premier League season, Leicester City were held at 5000 to 1 odds to win the league title. By the end of the season, they had beaten out powerhouses like Chelsea, Manchester United, and Manchester City to become only the fourth team since the 2003/2004 season to be crowned Premier League champions. Save for that incredulous outlier of a season, the winner by season’s end was always one of those three aforementioned powerhouse teams. With wage spending that more than doubles most of the league’s other teams, these three teams could consistently out play the rest of the league on a yearly basis. If it was not for Leicester City’s run, no team outside of England’s famed Big Six teams could reasonably believe it to be possible to challenge for the title in any season. The Big Six of Manchester United, Manchester City, Chelsea, Liverpool, Arsenal, and Tottenham are essentially playing a different game than the rest of their Premier League foes. Their game is one that involves trying to win the league or compete for a spot in intra-European tournaments while the rest of the league can only fight for bragging rights, increased revenue, or simply avoiding relegation. This is a phenomenon that is all too familiar for football fans of any of Europe’s top leagues. The past 15 years of Spanish football has seen only two champions save for Atlético Madrid’s title run in 2013/2014.
Bayern Munich has won the past seven German championships. PSG has won seven of the past eight in France. And of course, not to be out done, Juventus has won the past eight Italian championships.

Despite European association football being watched all over the world, its leagues have become some of the most predictable, with titles rotating between a select few teams at the top. Compare this to another mainstream league like the National Football League in America where 10 teams have American football’s Super Bowl in the past 15 years. Important to note about the NFL is that team’s are held to a flat salary cap that limits each team to the same maximum amount of spending on player wages. The lack of competition in Europe, as well as skyrocketing player wages, has sparked proposals for the introduction of a salary cap that sets a spending limit on player wages. Although they can be considered a form of salary cap, Financial Fair Play laws implemented by UEFA, the governing body for European football, starting in the 2011/2012 season addressed financial stability of teams and has done little to manage balance of competition. Previous proposals like that of Dietl et. al.¹ or existing salary caps implemented in the NFL, NBA, or MLB in America provide blueprints as to how to go about developing a salary cap for European football leagues that are mostly an open market for teams to spend on players as things currently stand. Although an open market in European football promotes overall talent,

the football associations can implement a dynamic salary cap that changes year to year based on

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Spending Problems

This lack of competition can be clearly visualized if you look at team spending within the Premier League. Only five teams spend above the league average for player salary, with a clear gap between them and the rest of the league.\(^2\) Consequently, these are the only teams considered viable to compete for the title. This group of five does not change year to year, meaning that no one else in England has been able to crack the top five. An additional issue that is evident here is that these teams at the top have been overspending on player wages for the return in talent that they receive. Tottenham, the final member of the Big Six, spends half of what the top five spend yet have finished in the top three multiple times in recent years. When teams spend double on players, the talent they receive generally does not give double the return. With owners at the top having to commit more and more money each year just to keep up with the other elite European teams, a salary cap to stop wage increases has recently become favorable since it has been proven to help mitigate wage spending demands and competitive balance.\(^3\) In fact, it is not just the owners of the top teams that are spending too much. Looking at the Belgian Jupiler League, which is not one of the big leagues in Europe, shows that even those clubs are overspending for

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their players despite having small wage bills compared to the European giants. A salary cap would provide useful for both large and small European football leagues.

As teams vying to win the UEFA Champions League continue to increase their wage spending and therefore widen the gap between the haves and the have-nots, lucrative television deals have brought in huge amounts of revenue to be used for even more wage spending. The Premier League’s 10.4 billion pound TV deal that started in 2016 provides a vast amount of wealth to all teams, but with plenty more for those at the top. Injecting large amounts of cash into a league have shown to decrease competitive balance, which creates a growing problem for European football. With new TV deals with higher revenue coming to leagues across Europe, smaller teams’ ability to compete with larger teams will continue to be damaged. The situation has already been proven to be dire in Spain’s La Liga when it comes to smaller teams not being

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able to compete with the top two of FC Barcelona and Real Madrid. This existing and still growing problem adds to the need for a limit on wage spending in European football.

Financial Fair Play

Wage increases have been addressed before in 2011 when UEFA, the governing body of European football implemented Financial Fair Play laws that limited teams overall spending to equal their revenue, with some leeway if owners commit their own money. These regulations can be considered a form of salary cap, but they are more concerned with the financial viability of teams in order to keep them from going deep into debt. As well intended as these regulations may be, their actual impact on the football world exacerbate the spending gap between high and low revenue teams. Because teams are limited to spend as much as they make, teams that play in small markets that generally perform worse are given a low ceiling to spend on players while balancing the rest of the club’s finances. Meanwhile, successful teams in large markets bring in high revenues and therefore are given more freedom to outspend the rest of their competition. Financial Fair Play keeps teams from overspending, but in doing so, it limits teams at the bottom


of the table while not affecting top teams’ ability to put superior players on the field. While the powerhouses in Europe can still compete for league titles while under Financial Fair Play regulations, they still do push the limits as some top teams have been punished recently under these laws.

**Existing Salary Caps**

If we are to look for a solution to Europe’s problems, we should first see how similar situations have been handled in other large markets, specifically the NFL, NBA, and MLB. Both the NFL and NBA take a stance of complete balance of competition by implementing a flat salary cap where each team is limited to the same max wage bill. If all teams spent as much as they could, they would all be spending the same. A unique difference between the NFL and NBA is that the NBA limits the max amount a team can spend on one player. This stops runaway wage spending on specific players, but it also results in players of much different talents being paid the same max contract. One can argue that this is an excessive restriction on the rights of the players to be paid a fair wage.

The MLB luxury tax works differently by setting a flat salary cap that teams are allowed to go over. If a team does exceed this limit, they pay a fine that increases each season of overspending. This salary cap works similarly in practice to the NFL and NBA, but it gives
owners willing to spend extra an option to outspend the rest of the league and take the fine.

Financial Fair Play in Europe works on the same principles where overspenders are punished, but still overspend due to deep pocketed owners. It’s important to note that salary caps in these three American leagues have resulted in a very high balance of competition.

The most interesting alternative salary cap that exists is the one implemented in America’s Major League Soccer. MLS has single-entity structure which gives the league the responsibility of paying players on all teams. Within this unique structure, each team is held to a flat salary cap to be paid by the league with the exception of paying three players an unlimited amount from the team owner’s pockets. This structure has improved competitive balance while keeping wages down, but has kept higher skilled players away from the league. The growth of a league relies on what kind of players it can attract. MLS has taken an interesting path by using a flat salary cap to manage competitiveness and wages, while also allowing the three player exception to allow bigger name players to raise the level of play. The successful growth and stability of MLS play has shown that the ideal salary cap for European football may be a mix between flat salary cap and open market systems.

While the gradual growth of football in America has been successfully managed by a salary cap, those who appreciate the high level of talent in Europe’s top leagues may not

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welcome a salary cap due to fears of talent leaving to play elsewhere. A salary cap will reduce the availability of funds across the league to be paid to players, but it does not necessarily mean that talent will catastrophically drop. Studying the rise of association football in Portugal shows that league’s can still grow their overall talent without the top teams being the ones to foot the bill.\textsuperscript{10} Allowing smaller teams to invest in development while larger teams have their spending stifled means young, talented players end up playing for teams that need them the most without being poached by owners who have deep pockets to pay their way to a title. Future proposals for a salary cap in Europe may involve incentives for youth player development in order to provide an organic way for smaller teams to own talented players. The MLS implements their own version by not counting the salaries of players signed from their respective team’s youth academy toward the team’s salary cap. This incentive system allows for team’s to essentially have a free player when it comes to the salary cap if they have invested in his development into a professional player.

\textbf{Anti-Trust Law}

A major obstacle that must always be dealt with when discussing a salary cap in European football is its legality in the face of European Union antitrust law. A salary cap is an agreement for football teams to limit what they pay their players, who work for a salary just like truck drivers and security guards do. While this can be considered employers conspiring to fix the market for talent, American leagues have gotten past their equivalent antitrust laws by allowing the players to collectively bargain in this agreement as well. Antitrust law for sports leagues in America and Europe are very similar, and the success of salary caps in American leagues bodes well for the legality of salary caps in Europe. The most important piece of evidence that points to a salary cap for European football being legally legitimate is Premiership Rugby in England. The rugby league implements a flat salary cap that has not been struck down by the EU. The survival of Premiership Rugby’s salary cap shows that the restrictions made on wage spending for players does not limit the wage market enough to warrant legal action. This salary cap provides legal precedent for a football salary cap, as well as showing that a salary cap can increase competitive balance in a sport, much like football, where players are free to move between leagues with comparable talent levels. If rugby in England can have a flat salary cap,

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12 Vincent Hogan and Patrick Massey, “Competitive Balance: Results of a Natural Experiment from Rugby Union”, International Journal of Sport Finance 13, no. 1 (February 2018): 3-17,
then football can definitely implement its own version, which would most likely in practice not be as drastic as a flat salary cap.

**Percentage-of-Revenue Salary Cap**

Despite salary caps being successfully implemented in rugby, European football happens on a much larger stage at much higher stakes. Therefore, the effect of a salary cap needs to be managed to keep regulators within the EU satisfied. The balance that must be kept is skillfully demonstrated by Dietl, Franck, Lang, and Rathke in their article “Salary Cap Regulation in Professional Team Sports”. They show that a salary cap that limits wage bills to a certain percentage of each team’s revenue is shaped by factors like players wage losses, increased profit, and a level of competition that fans are accustomed to.\(^{13}\) A salary cap in European football must strike a balance between how much more competitiveness fans want with the reduction talent and pay for players that comes with lower wage spending. A salary cap on a league that is already well balanced would not satisfy EU regulators since the players and fans suffer from less money being spent, while the league does not need to become more competitive. In the case of the top five leagues in European association football, there is a large enough lack of competitiveness to justify a salary cap with a low percentage-of-revenue limit under this model.

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\(^{13}\) Diet et al., “Salary Cap Regulation in Professional Team Sports”.

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The problem with limiting each team to spend a certain percentage of their revenue is that clubs do not manage their books the same way at each revenue tier. The smallest earners must spend a large majority of their money on player wages just to keep up with the rest of the league while the earners above the league average spend sometimes less than half of their money on players. These big clubs earn so much in revenue by being globally recognized brands that it’s not necessary for them to spend a large percentage-of-revenue on players. Even still, that smaller percentage still amounts to a larger figure than most other teams can manage. As teams earn more, the percentage-of-revenue they spend on players decreases. This means that limiting each team to a certain percentage of their revenue may end up hurting the smaller spenders more. A 50% spending limit would not affect reigning Premier League champions Manchester City, but it would make winning impossible for a bottom five team that already spends 80% of their revenue.\textsuperscript{14} Any viable salary cap solution based on percentage-of-revenue would have to place a lower percentage cap for teams as they earn more.

\textbf{Dynamic Salary Cap}

There is enough disparity in Europe’s top five leagues that the optimal salary cap solution to bring back competitive balance would only apply to the biggest teams. Since most teams in these leagues are already spending as much as they can to improve, they should not be

\textsuperscript{14} Umid Kumar Dey, “Premier League clubs and their madness of spending big this window”. 
given any more restrictions beyond Financial Fair Play. I am proposing a dynamic salary cap that incorporates the flat spending limit as used in the NFL or NBA as a baseline, that also has a percentage of revenue added to the spending cap. This means that teams that earn less in revenue than the spending baseline will be able to spend up to that baseline, but Financial Fair Play laws will most likely come into effect before those teams can hit a spending limit that high compared to their revenue. In leagues with not much balance in competitiveness, the baseline may end up being unreachable by the smaller teams in order to allow them to keep growing without restriction. Teams that can afford to spend more than this baseline would have their cap limited to a percentage of their revenue plus the baseline. This way teams that earn more can spend more, but at some limit that is lower than what they would have spent without a salary cap. The duality of a dynamic salary cap lifts restrictions from smaller teams that are looking to grow on and off the field, while lowering the spending of teams that already have top level talent.

Determining the baseline and percentage-of-revenue to use can be done by analyzing a league’s Gini coefficient for competitive parity. The Gini coefficient is a number from 0 to 1 that has generally been used to indicate how evenly distributed income is in a society, with 0 meaning completely even distribution and 1 meaning all the wealth being held by one member. By using wage spending as a proxy for talent as the input, a Gini coefficient can be calculated
that indicates how balanced competition is in any league. Using the revenue generated figures for teams from a finished season, a baseline and percentage-of-revenue can be chosen that will set team spending to result in a desired Gini coefficient. A league looking to improve the balance of competition would lower their percentage-of-revenue in order to decrease the Gini coefficient of team spending. A league that is also concerned with not lowering overall spending too much in the hopes of retaining talent can choose a higher baseline, which would essentially raise the cutoff for spending that is affected by the salary cap.

Based on previous or projected revenues for each team, a baseline and percentage-of-revenue can be tailored to each league and change season-to-season in order to manage spending to a certain balance of competition and overall spending level. Using a dynamic salary cap that can be adjusted based on these two goals allows a European football league to manage how their competitive balance and spending levels change over the long term. A league can gradually create change by using a high baseline and/or high percentage-of-revenue, or they can be aggressive and use a low baseline and/or low percentage-of-revenue that may even resemble a flat salary cap.

Conclusion

As with any other salary cap system, the open market for talent would be no longer. Wages for the most talented players would no longer continue on its sharp rise and will instead
go down. European football is unique in that if say one league suddenly shut down, there are teams in other leagues willing to pay those same players. Therefore, if only one league implemented a salary cap, the talent would just leave to go play elsewhere. A salary cap can only be implemented without tanking the overall level of play if alternative leagues implement one as well. All leagues in Europe that can afford to pay the top tier of players absurd amounts need to be subject to the salary cap if it is to work as intended. Moving forward, I am developing the process and formula for determining salary caps across multiple leagues. This is a concept that has not been implemented for any of the top sports leagues in the world, and so there are no existing examples to study.

Despite this salary cap restricting the open market for talent in European football, football associations can implement a salary cap with a baseline plus percentage-of-revenue limit that changes year to year to manage wage spending, talent supply, and balance of competition by tying it to an objective measure of competitiveness. European association football is a multi billion dollar industry, and much of that success comes from the large amounts teams will pay for quality players. It’s therefore incredibly important that any salary cap implemented must consider all of its implications. The point of a salary cap is to bring wage spending down while still allowing revenue to grow. With better competitive balance and a managed lower wage spending, European football can become more economically beneficial for team owners while improving the excitability of games for the fans. Owners of the largest
teams in Europe have actually come out in support of a salary cap that would limit their own
spending. A salary cap would limit their efforts to win titles, but it would also put a lot more
money in the pockets of owners since their profit margin is improved. With a solution that
applies across Europe, the biggest powers in European association football can get behind a
dynamic salary cap.
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