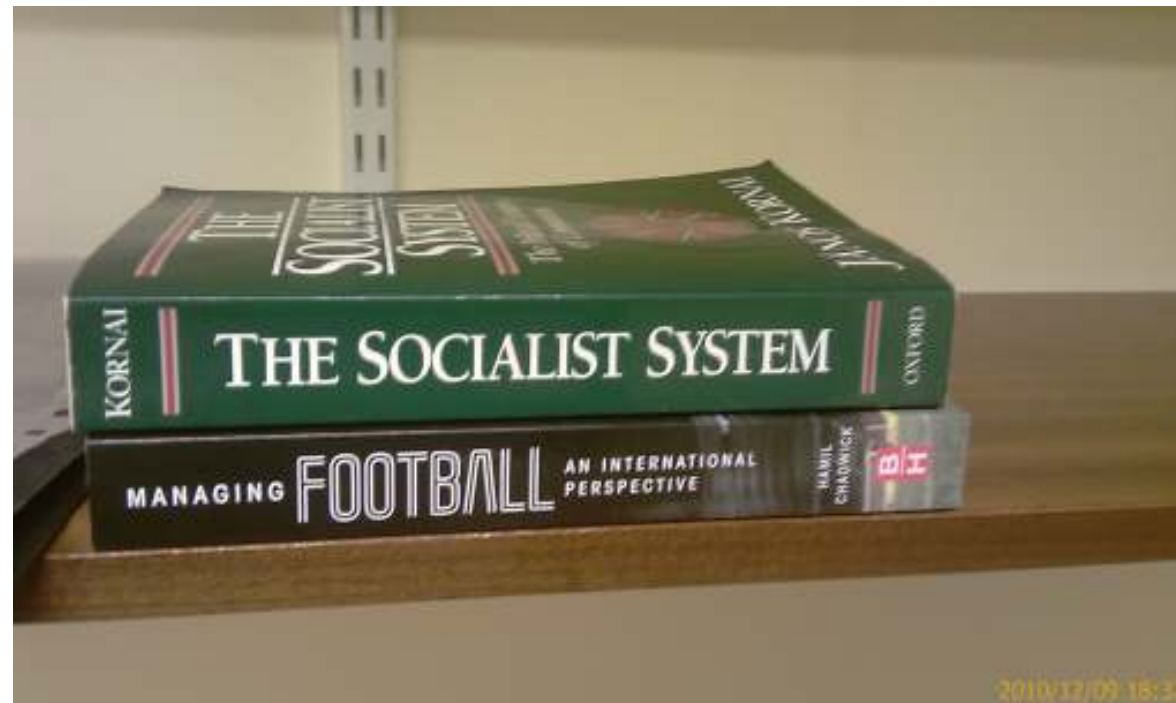


Football and regulation – the Danish case



Will better regulation solve the challenges of Danish football?
Senior Academic Researcher and PhD Scholar
Rasmus K. Storm

Presentation index

- The relevance of the soft budget constraint approach (basic ideas)
- Soft budgets in European football with a focus on Denmark
- Effects and problems of soft budgets: Why is regulation needed?
- Can regulation be efficiently implemented?

Deploying the Soft Budget Constraint Approach: basic ideas

Professional football clubs (and professional team sports clubs in general) seem to operate within soft budget constraints in a way which is similar to the role of large companies in socialist economies – a phenomenon which was first identified by the Hungarian economist Janos Kornai.

Our understanding of the peculiar economics of professional team sports can be enhanced significantly by applying the soft budget constraint concept to this context.

Outline of main theoretical assumptions

According to Kornai, the hard budget constraint is a form of economic coercion where *“proceeds from sales and costs of input are a question of life and death for the firm”* (Kornai, 1980b, p. 303; Kornai, 1979, p. 806)

....this is clearly not the case
in European professional
football clubs



What is a Hard Budget constraint?

- **H1:** The firm is a price-taker for both inputs and outputs;
- **H2:** The firm cannot influence the tax rules: these rules base taxes on observable and measurable criteria; no individual exemption can be given concerning the volume of tax or dates of collection;
- **H3:** The firm cannot receive any free state or other grants to cover current expenses or as contributions to finance investment;
- **H4:** No credit from other firms or banks can be obtained: all transactions are made in cash;
- **H5:** No external finance for investment is possible.

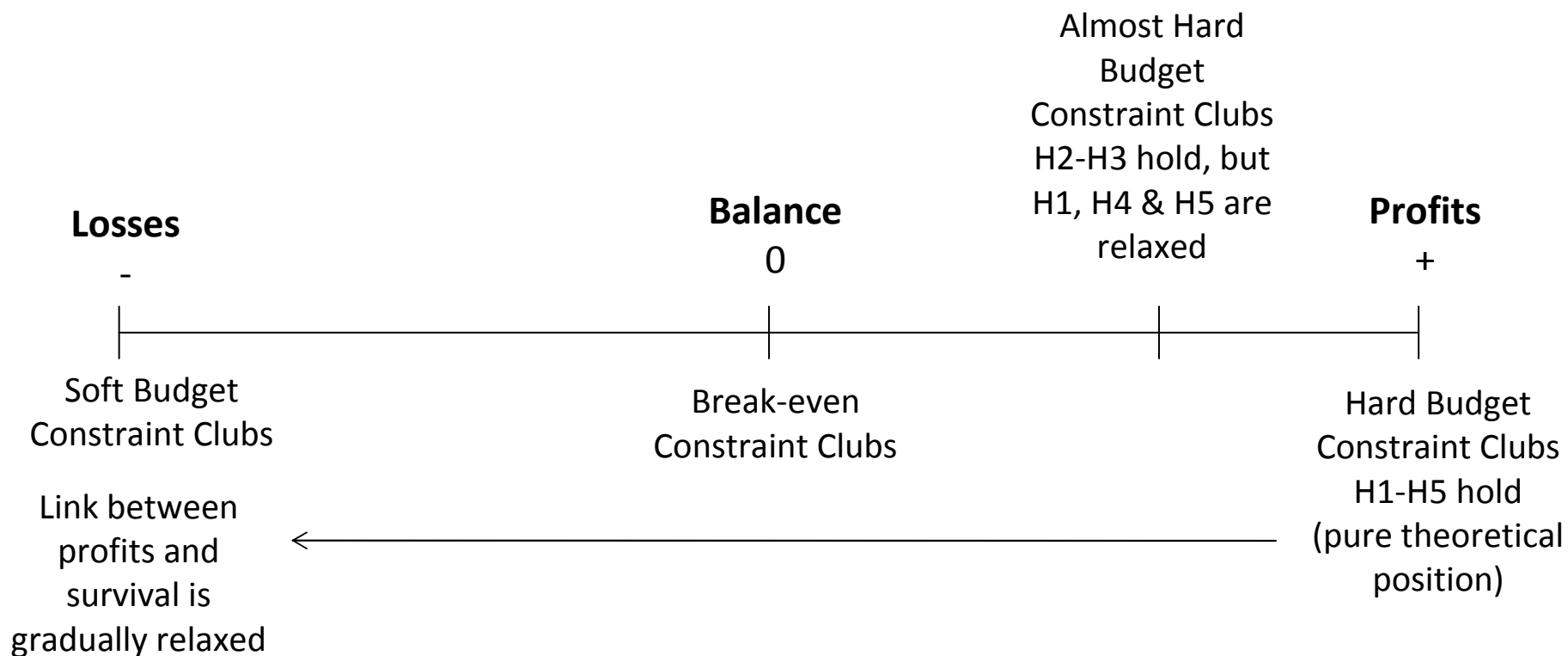
Outline of main theoretical assumptions



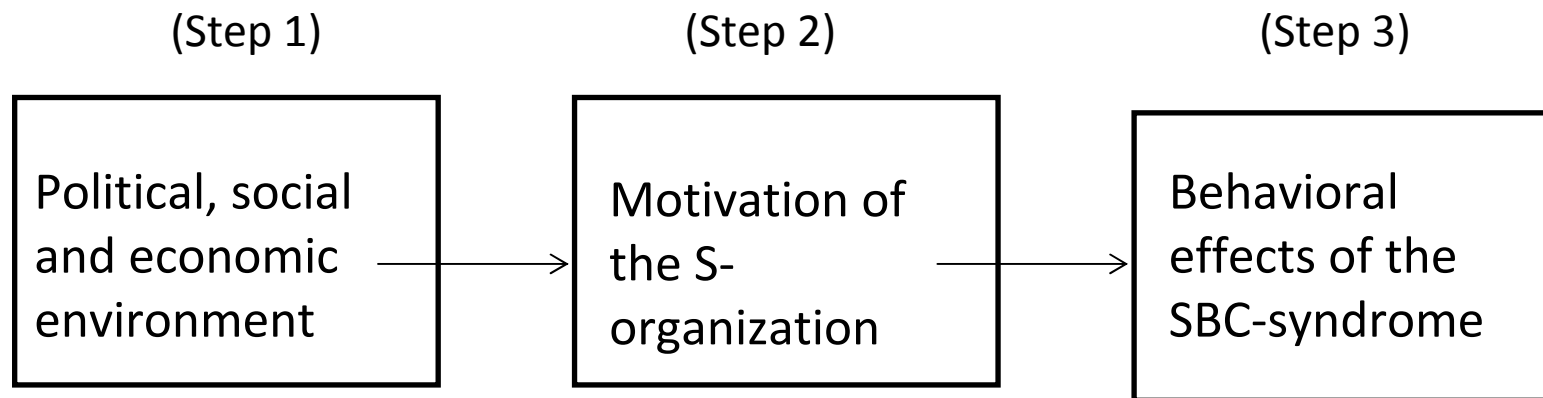
In contrast, ‘perfect softness’ is a state of affairs when differences between proceeds from sales and costs from production are not a matter of “life and death” (Kornai, 1980b, p. 308), when the growth of the firm is not tied to the present or future financial situation, or when the firm “survives even when investment entails grave losses” (Kornai, 1979, p. 807)

....this is clearly the case in
European professional
football clubs

How soft is soft and how hard is hard?



Development and effects of the SBC syndrome



Ex ante **expectations** of **bailouts** or **support** *ex post* is one of the key ingredients in the development of soft budget constraints.

Soft budgets in English football



English football: *“English football has managed to sustain persistent losses that in other industries would have invited creditor reaction. The patience of banks, Inland Revenue, and other creditors is partly due to a reluctance to call in overdrafts and unpaid bills in recognition of community disapproval that would follow”* (Buraimo, Simmons & Szymanski, 2006, p. 41).
(example of relaxation of the H4 and H5 condition of hardness)

Soft budgets in Italian football



“Football teams [in general] (...) have had a very favourable application of (...) fiscal regulation” – a relaxing of the **H2 condition** of hardness (soft taxation). The Lazio case is a prominent example of this general trend.

Soft budgets in Spanish football RP3

"(...) there is no chance that Real Madrid or Barcelona would ever be allowed to go bankrupt, whatever the financial problems of these big-spending clubs" (Lago, Simmons & Szymanski, 2006, p. 8)

Spanish football: In Spain, soft budget conditions were expressed in several rescue operations designed to help financially distressed clubs. In 1985 public authorities decided to help reduce debts in Spanish League clubs, which at that time exceeded €124 million – a **clear example of a relaxation of the H3 condition** of hardness (public subsidies).



Dias nummer 11

RP3

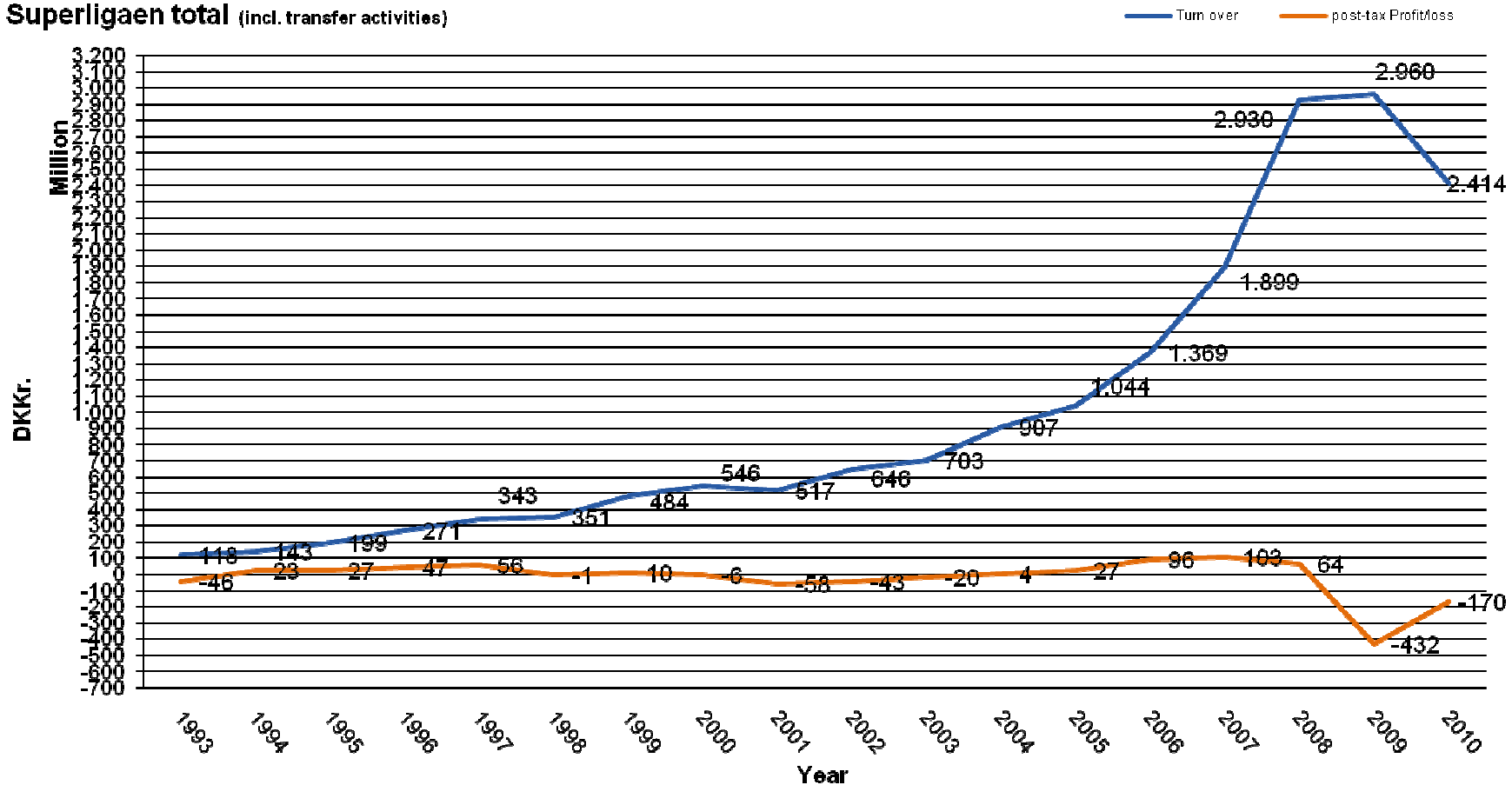
I like the formatting of this slide the best - maybe the other 2 could be formatted more in this way.

Rachel; 17-06-2011

Soft budgets in Danish football

RP4

Superligaen total (incl. transfer activities)



Dias nummer 12

RP4

'Turnover' (one word), profit with a small p?

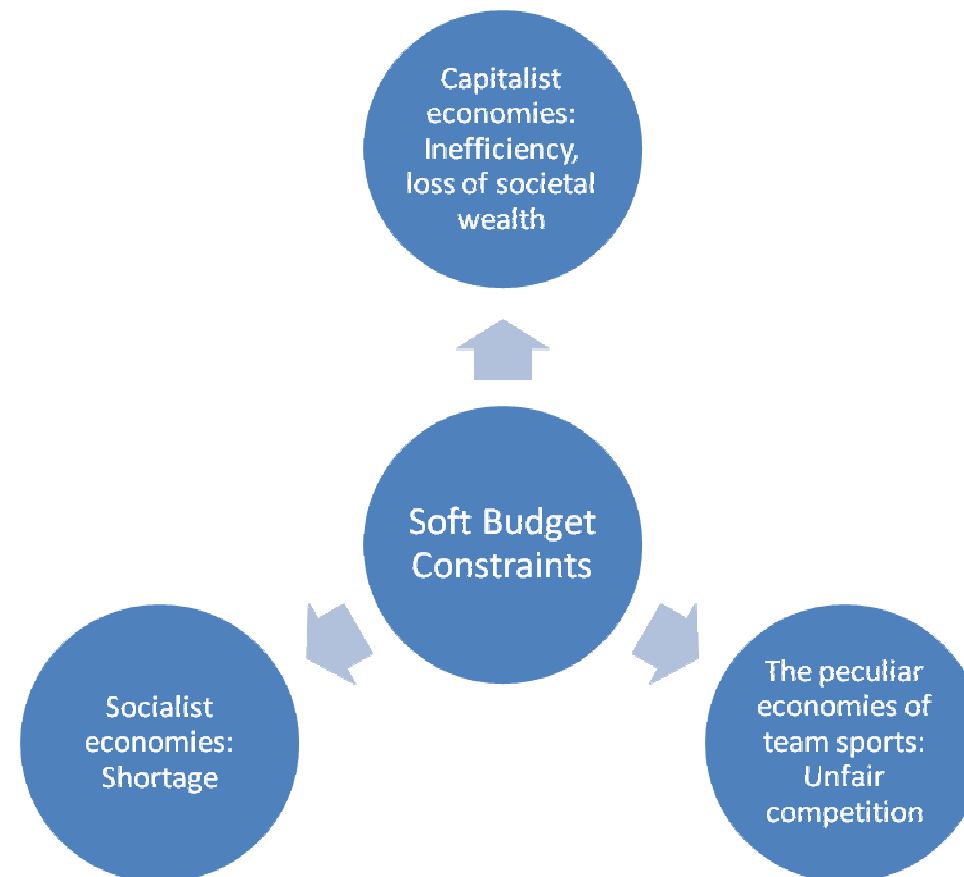
Rachel; 17-06-2011

Soft budgets in Danish football

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006
Mil. DKK	-20	-38	-20	-64	-54	-34	-41	-36	8

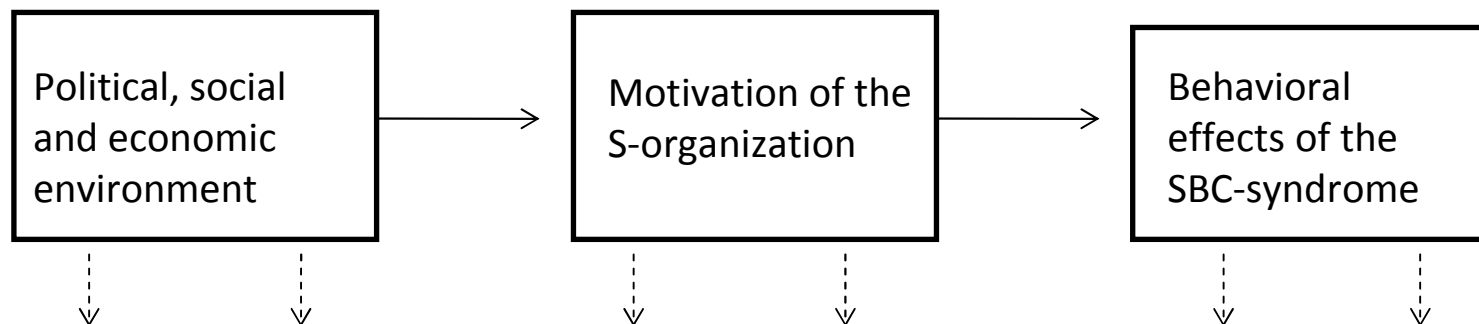
Post-tax profit/loss in Danish Superliga clubs,
minus BIF and FC Copenhagen

Why are soft budgets a problem?

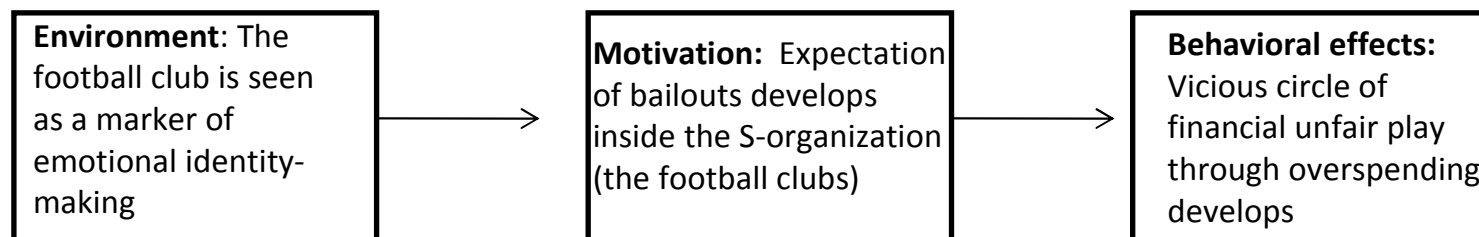


Effects of the SBC syndrome – an example

Theoretical development and effects of the SBC-syndrome



Concrete developments and effects of the SBC-syndrome in European pro-football



Soft budgets are a competitive advantage

Why is regulation necessary?

- Regulation is the starting point of sport – everything is regulated in order to create an equal structure of competition as possible.
- In this sense it becomes dubious not to regulate a part of the game that has the most important effect on sporting competition.
- Of course, the idea of equal competition is a theoretical construct. It is not possible to reach such an ideal situation in practice.
- However, we still need to try.

Is regulation possible?

- It not very likely that the UEFA Financial Fair Play Program will be successful
- Rules can be circumvented as softness is an competitive advantage
- How strict will the rules be sanctioned?