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The Reassuring stability of
Football Capitalism



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Football Capitalism

- Definition:

free movement of labour
free movement of capital

- Compare:

- Football Social Democracy- free movement of labour but controls on capital mobility (most of Europe)
- Football Socialism – restraints on capital and labour mobility (NFL)



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Two types of stability

- Long run

Growth trends and volatility over time: attendance, revenues, club identity

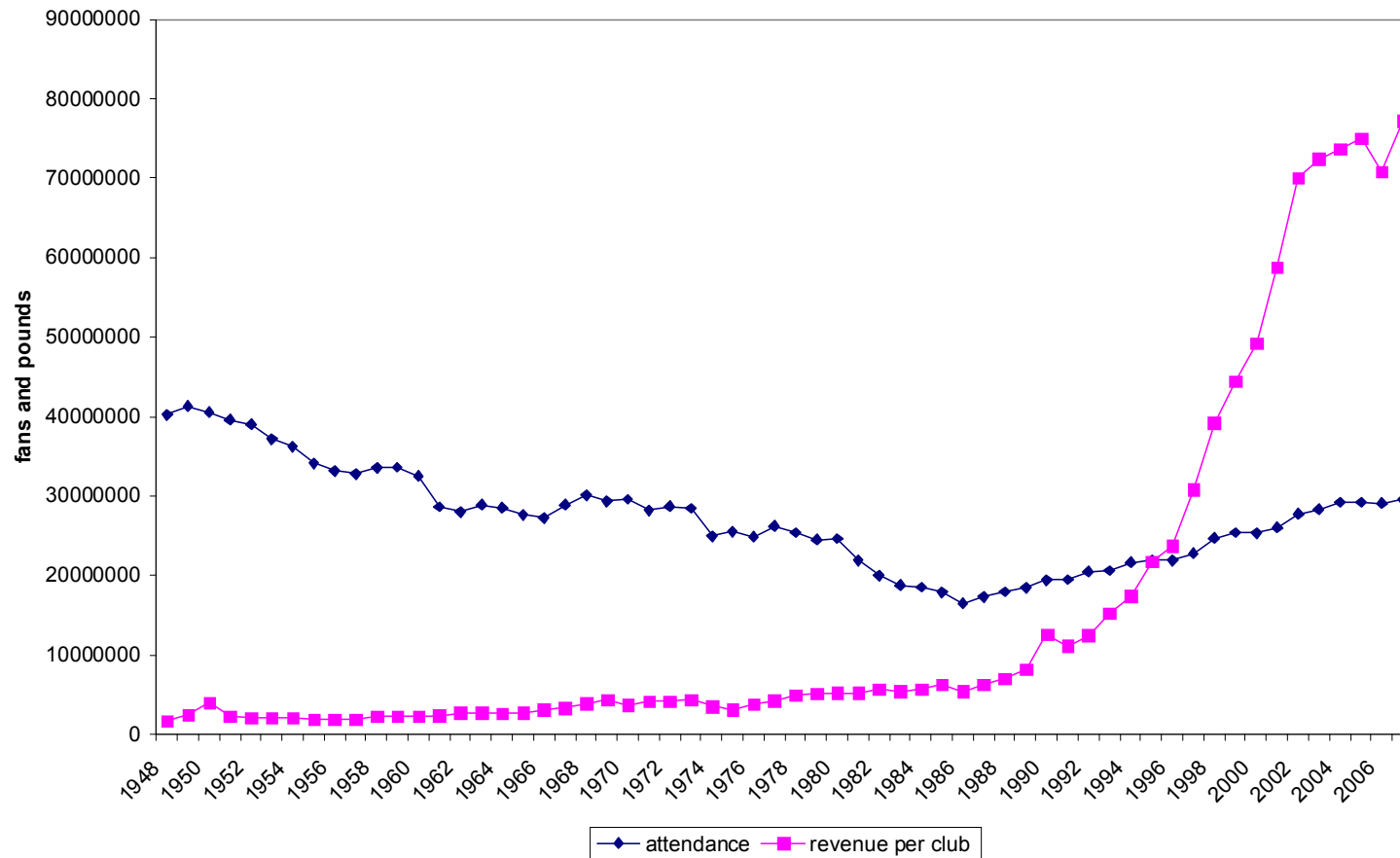
- Short run

Sensitivity to economic shocks (recession and economic crisis)



Stability of attendance and revenues

Attendance and revenues in the top division in England 1948-2007





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The long run stability of English Football

In 1923 the Football League consisted of 88 teams organised in four divisions of 88 teams. In the 2007/08 season:

- 85 still existed (97%)
- 75 remained in the top four divisions (85%)
- 48 were in the same division as they were in 1923 (54%)
- Only 9 teams (10%) remaining in the top four divisions were two or more divisions away from where they were in 1923



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Compare stability in other industries

- What happened to the top 100 companies of 1912?

By 1995:

- Only 20 remained in the top one hundred
- Only 50 survived
- 7 liquidated
- 6 nationalised
- 37 had been acquired by other firms

(Les Hannah)



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The Financial Crisis and English Football

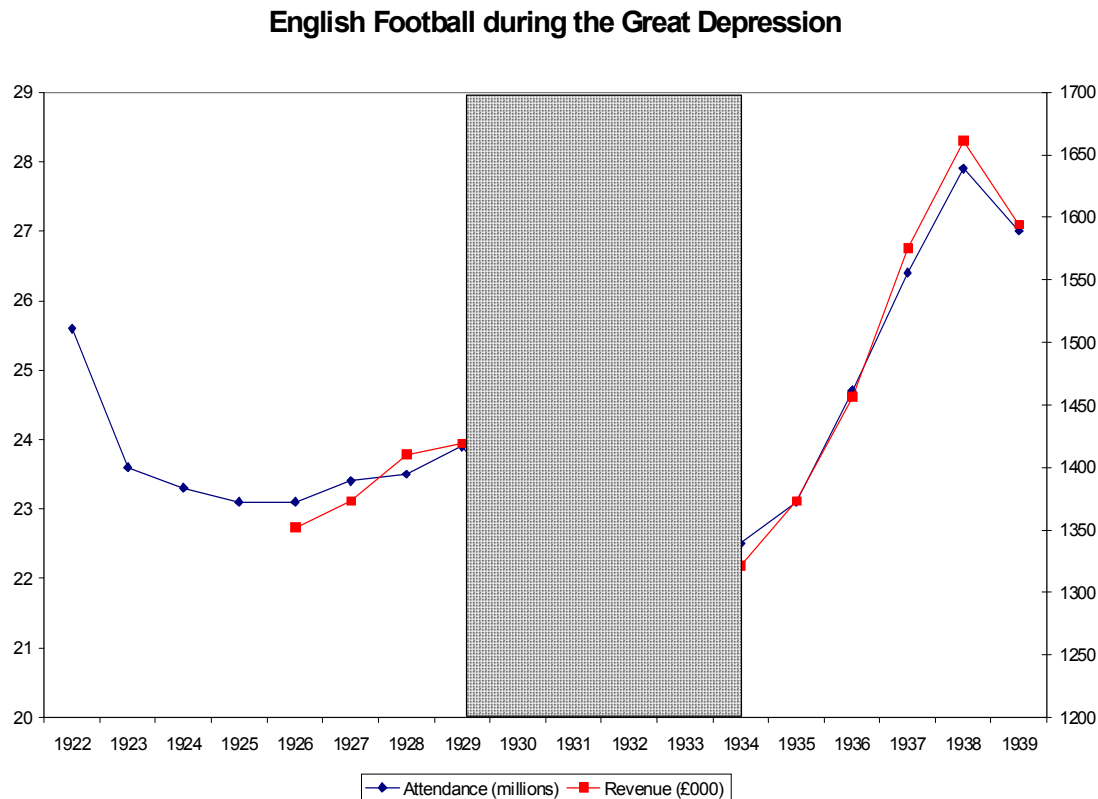
Since September 2008:

- Loss of sponsorship income (e.g. Manchester United and AIG)
- Several clubs up for sale (e.g. Newcastle United)
- Questions asked about debt finance of US owners (Glazers, Hicks)
- Control of West Ham decided by Icelandic bankruptcy court
- Clubs entering insolvency proceedings (Southampton, Darlington, Chester City, Stockport County)



The impact of economic shocks on football

The Great Depression

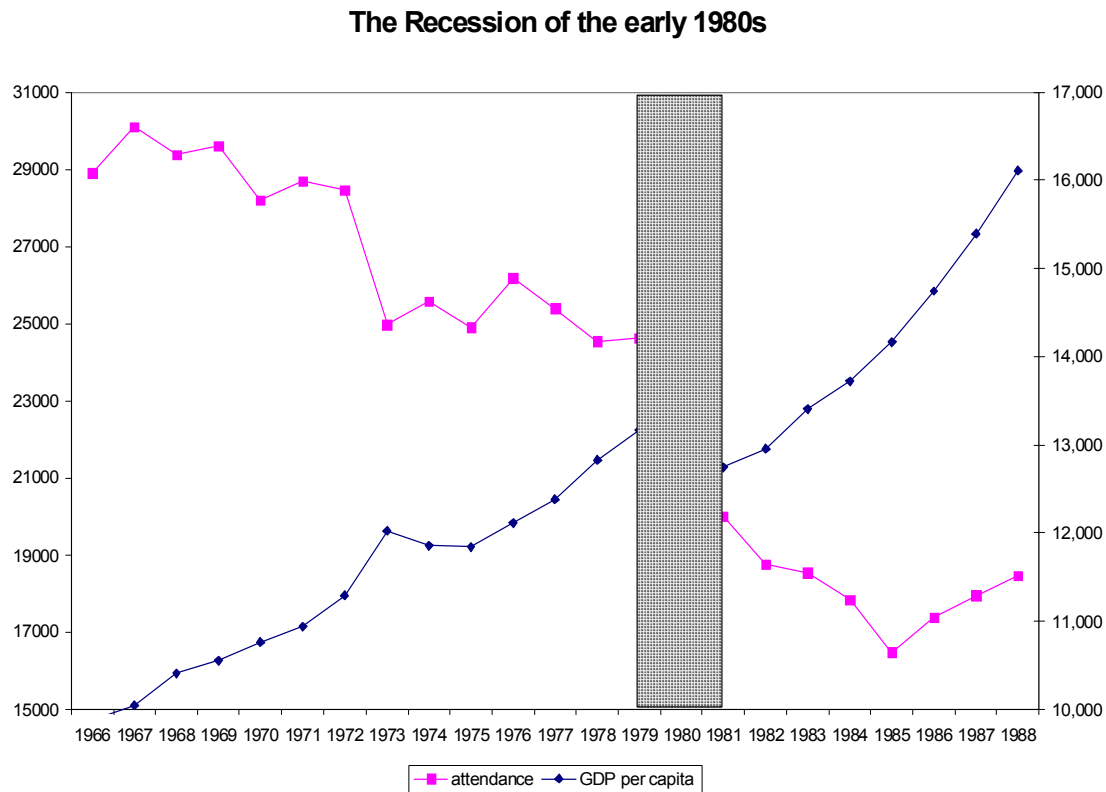


Attendance and income at Football League clubs fell by 12% between 1929 and 1931, but by 1932 they were rising again, even though the UK economy didn't start to grow again until 1934.

Merthyr Town and Wigan Borough liquidated



The impact of economic shocks on football



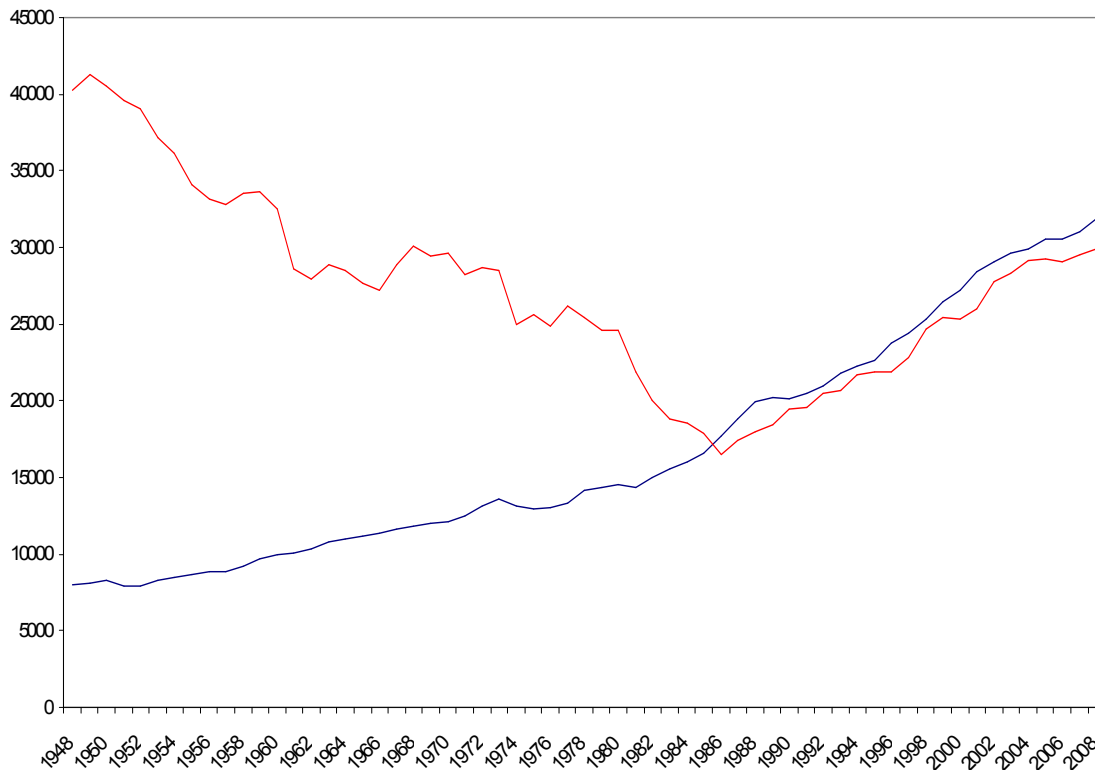
The Thatcher Recession

- attendance fell from 24.6 to 18.8 million
- Receivership (e.g. Hull City, Bristol City)
- Preston, Wolves and Leeds sold their ground to



Football sensitivity to the macroeconomic environment

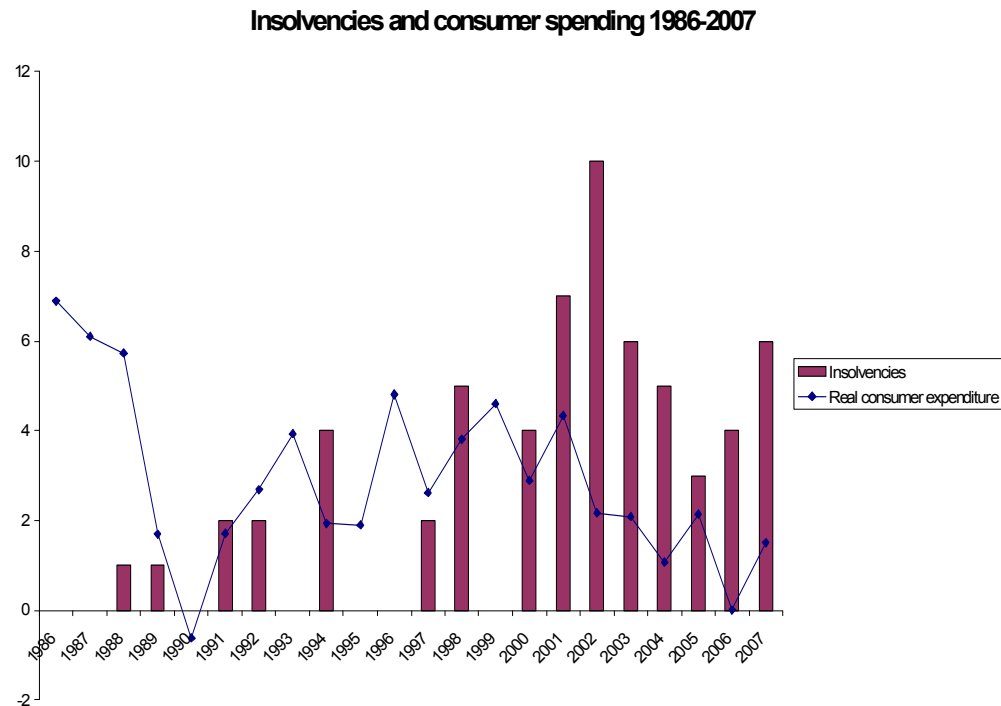
Real Consumer Spending and League Attendance 1948-2008



- Football went from being an inferior good to a normal good in the 1980s
- A 1% change in consumer expenditure is associated with a 1% change in attendance
- Consumer expenditure likely to fall by around 5% in the recession



Stability, ownership and solvency

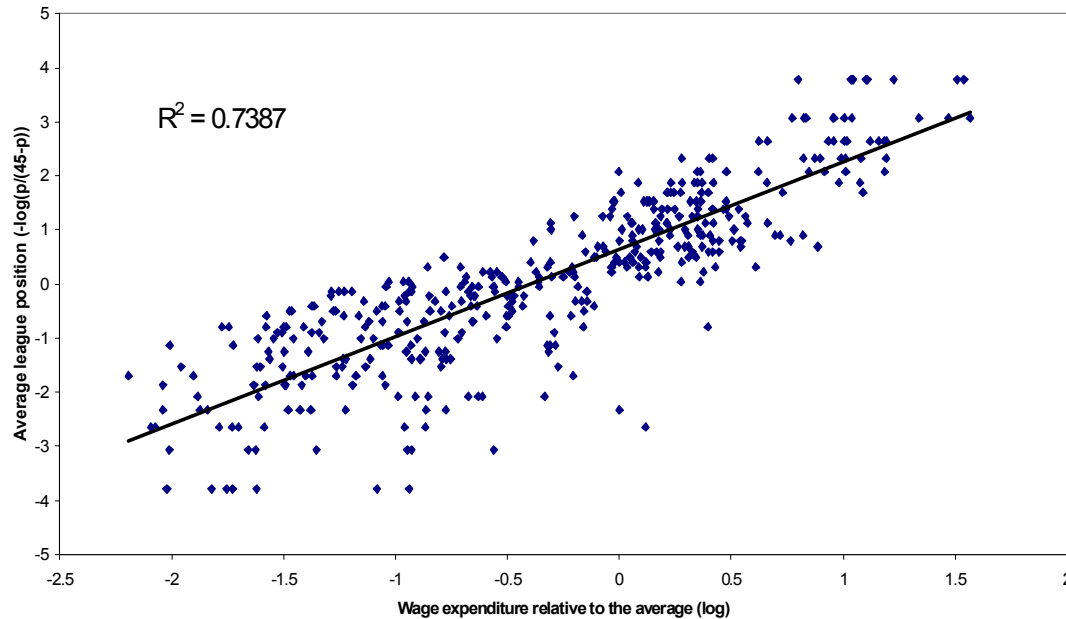


- Ownership in football capitalism highly unstable
- Frequent ownership changes
- Frequent insolvency
- Why does this happen?



Football capitalism and competitive markets: part 1

Premier League and Championship Teams 1998-2007
Performance and wage expenditure

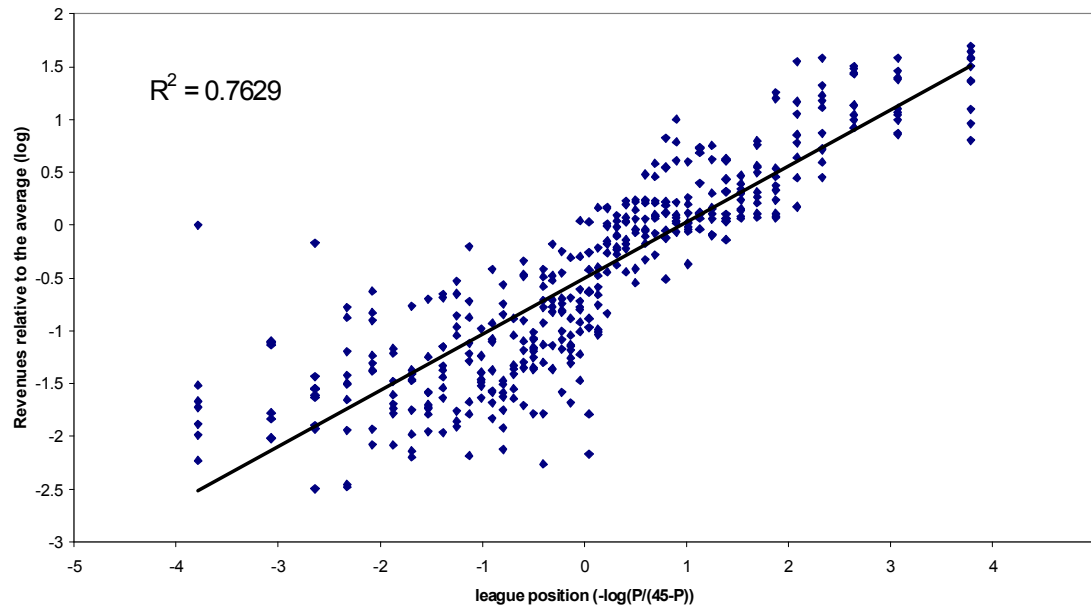


- How much you spend on players, relative to your competitors, determines your league success
- This reflects the transparency of the player market



Football capitalism and competitive markets: part 2

English Premier League and Championship Teams 1998-2007: Revenue and performance



- Fans are, on average, loyal to successful teams
- Success determines revenues: a competitive market for supporters



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The lessons of football capitalism

- Demand for football is stable
- The league is stable
- The clubs are stable
- And, in recent years, football capitalism has been very successful relative to the alternatives
- But, the main problem in football capitalism is that it is almost impossible to make money, hence insolvency and sell-offs



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So what is the problem?

- Do we feel sorry for the football capitalists who lose their money?
- Do we think the fans of clubs whose owners go bust are unfairly treated?
- Do we think that leagues which refuse to embrace football capitalism are entitled to prevent others from doing so?



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Conclusion: capitalism and recessions

- Capitalism is a system that has delivered sustained economic growth for 300 years
- But capitalism is punctuated by periodic crises that cause great human misery
- Financial trauma for workers and their families
- Unemployment, and associated increases in health problems, depression and suicide risk
- By comparison the problems of football capitalism are trivial