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Originally published at:
Dietl, Helmut; Lang, Markus; Nesseler, Cornel (2017). The Effect of Government Subsidies in Professional Team Sports Leagues. International Journal of Sport Finance, 12(1):49-64.

tInternational Journal of Sport Finance, 2017, 12, 49-64, © 2017 West Virginia University

The Impact of Government Subsidies in Professional Team Sports Leagues

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Abstract

This article develops a game-theoretical model to analyze the effect of subsidies on player salaries, competitive balance, club profits, and welfare. Within this model, fan demand depends on win percentage, competitive balance, and aggregate talent. The results show that if a large-market club receives a subsidy and fans have a relatively strong preference for aggregate talent, compared to competitive balance and own team winning percentage, club profits and welfare increase for both clubs. If the small-market club is subsidized, a small subsidy increases competitive balance and player salaries of both clubs.

Keywords: subsidy, team sports, competitive balance, social welfare

Introduction

Government subsidies are a common phenomenon in professional team sports. These subsidies usually take the form of advantageous property deals,[1] tax loopholes,[2] and low or zero stadium rents.[3] As a result of these subsidies, some clubs enjoy cost advantages over their competitors.

A special case of these cost advantages are income tax differences with respect to player salaries. In France, there is a uniform income tax rate. As a result, players in the first French division face an income tax rate of 45% if their salary exceeds €150,000. Monaco, on the other hand, does not impose income taxes. Accordingly, players from AS Monaco, who also compete in the first French division, do not pay any income taxes.