

# The murky business of sport

[Economics & Deregulation](#) | [Alan Moran](#)



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Lost in the endless vilification of Melbourne Storm is the notion of what salary capping means. It is an agreement by a group of businesses to suppress the wages of their key employees.

Think of it like all the nation's banks forming a cartel and agreeing that they will limit the salaries of all their front line managers and analysts. Such an agreement would boost the banks' profits or allow revenue to be diverted to beneficiaries other than the key players.

The consequences of such actions outside of the business of sport would be legion.

For a start, our fearless regulator, the Australian Competition and Consumer Commission (ACCC), would be hiring its favoured lawyers, courtesy of the taxpayer, to prosecute the agreement's perpetrators. But even if it was minded to take such action on Rugby League salary caps, the ACCC is heavily conflicted since its chairman, Graeme Samuel, was a major mover in a similar trade-restricting cartel that operates with the AFL.

Similarly, our trade unions would be up in arms defending the high earnings, as they do with those in the mining industry, and point-blank refusing any suggestion of a cap on them. But again the silence is deafening.

Many people think that young sportsmen are overpaid. After all getting \$500,000 a year for having a good time kicking a ball around looks like a bit of a whiz. Many of this view would also condemn the high earnings of young pop stars, top car salesmen, and even successful software nerds.

But, as with other categories of workers, placing a cap on sportsmen's high earnings brings adverse repercussions.

It means some reduction in talented people choosing the profession. Given the earnings that the most successful young sportsmen can command, even with a salary cap, this might sound unlikely.

However, only the real superstars obtain the million dollar payouts and no young man can predict that he will emerge in that bracket. Moreover, life at the top is, at most, a five year window and there is a very high chance of injuries cutting that short, while reaching the required peak and holding oneself there is likely to bring longer term health issues.

Forcing down the front line employees' wages means money is diverted to other areas of spending. It probably means more is spent on administration, travel, ground quality, promotion, training and so on. While all of these areas of expenditure are worthwhile, they are likely to be less than optional.

A salary cap means a diversion from the spending that the fans really want - which is on attracting and rewarding the players who will give them the excellent performances they pay to watch.

Genetics, family influences, and formal coaching all play a role in creating great players and in ensuring the game is at its peak in attracting people. But the salary cap distorts the combination. Its effects are reinforced by other distortions.

Players are not allowed to choose who they will initially play for and they require their club's permission to move elsewhere. These restrictions would be illegal in any other activity.

Forty years ago English soccer had a salary cap, equivalent to about twice the average worker's earnings. The English salary cap was only eliminated when the cartel of soccer clubs that imposed it was confronted by another cartel, professional footballers, who saw themselves as being swindled by it.

And this is at the heart of the issue. A salary cap is a regulatory measure that a cartel imposes to reduce the earnings of the best and most valuable workers. Those workers are, as a consequence, underpaid. And, the fans also lose out as the ceiling on players' wages makes it difficult for a club to attract players from another to create combinations that will excite the fans.

The consequences of the English soccer salary cap were becoming apparent with the demise of the English game in international competition and some high profile departures of players to Continental Europe. The upshot of overturning the regulation is that soccer players now earn colossal salaries and the game has improved to such a degree that, as evidenced by its followers, it is the world's most popular sporting code.

And this underlines a vulnerability that the Rugby League and AFL salary cap approaches can create. The codes may become less attractive than alternative codes and see their sporting popularity decline.

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