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Why Sports Unions Succeed and Others Fail I & II

The Paradox of Modern Sports Union Success

Unions are dying in the United States. Less than 8 percent of the private sector work force is unionized. So why do unions flourish so successfully in professional sports?

Well it is not because the owners like them. Both professional football and basketball owners are trying to destroy their unions with lockouts. Both will fail, and the owners know it even as the football lockout enters its fourth month and will be resolved soon.

The owners hate the unions; I mean they *hate* the unions. Many of the owners are self-made wealthy using the teams as forms of ego gratification or extensions of their own Ayn Rand self images as self-made individualists. They will do anything and have tried everything including collusion to destroy the unions, but they fail. Why?



I think the reasons sports unions succeed derive from the very unique shape of the labor market that makes it relatively immune to the global forces that undermine unions all over the world.

The global market enables employers to shift jobs to lower wage countries. Borders mean little, and even technical jobs can be outsourced at will and connected via the internet. If owners don't shift jobs abroad, they can always shift to the south or southwest where government war on unions will ensure lower wages, benefits and working conditions. The shape of the labor market in sports limits these options for owners.

Traditional unions depend upon their ability to organize workers and get workers to perceive that a common good can be achieved by negotiating wages and working conditions together. A common good gets disturbed across all union members. The gain is greater for all workers over the long run than if workers negotiated individually for their contracts. This is the key; if the union stays together, the long term benefits are huge, but if they fall apart, then the benefits fail them.

The benefits of a union revolve around guaranteed wages for work. But the combined power also generates benefits and work rules around safety, none of which individuals on their own could gain. Left on their own, individual workers would end up with lower benefits, lower wages or job security and less safety over the life of the contract—this is exactly what has happened in the modern American private sector.

So why do sports unions work?

The first and more ironic point is that the owners actually gain an immense legal advantage from having unions to negotiate. This enables owners to get things like salary caps, entry salaries but above all transferrable contracts that can be traded within the league or cartel. The negotiated contract protects the

owners and their cartel from potential anti-trust and restraint of trade challenges. The contract protects certain aspects of the game that permit some level playing field and the patterns of player investment and trades that the teams depend upon.

The professional unions move to decertify themselves removed this cover for the superstructure of the sports and their profitability. This enabled the union members to launch a series of law suites that would destroy the profit structure as well as the competitive balance of the leagues upon which the profitability depends. This is doubly important for basketball and football because both depend upon salary caps which could not be sustained without a strong union agreement.

So against their better judgment, the owners need and accept but hate the unions.

Part II will examine the exceptional form that unionization takes in professional sport to adapt principles of unions with the need for compensation for superstars.

The recent settlement of the NFL lockout simply reminds the owners that they cannot conduct their business without a union of their players. At a deep level, the professional sport unions flourish because the number of elite athletes who can play professional sports is vanishingly small. A small level of depth exists in the labor markets to permit some reasonable substitution for medium or low range skill players. The baseball statistic of value over replacement (VORP) suggests this.

The replacement level is so high and the number of replacements so limited, however, that the drop off of play would be precipitous. There is no reserve army of the unemployed to take their place and you cannot move place bound teams at will to other countries with lower wage scales.

Second, the players are highly skilled and the skills take a long time to develop. Most of the investment in skills comes from the individuals who forgo other options to achieve that exceptional skill. The player also takes a very high risk because very few people succeed so they have forgone other opportunities. The players want to get maximum gains in the shortest time because pro careers especially in football and basketball average 3-4 years. So players have a very strong incentive to maximize their gains in a very short time of professional play and to band together to achieve this.



Third, only a small number of owners compete for the players; this permits cartel like behavior that can escape court scrutiny with legal contracts with unions.

This small group and limited substitution pool makes the value of the workers very high, doubly so because on the margins the addition of a couple players can profoundly impact the success of a team. So the union involves relatively little cost day-to-day cost to the players, and workers are socialized into the union at a very early age. The unions focus upon limiting entry, early salary scales, common mobile benefit pools and retirement benefits works well for players. The contracts also enable owners to have reserve clauses and trades and salary caps that game or owners needs to create some form of parity.

This common gain involves two major sacrifices by the players: the need to contribute money to a common strike fund and, second, the requirement to go on strike or endure a lockout if necessary to protect the common goods.

Sports unions, then, have a huge advantage over traditional unions. The members possess incredibly rare talents that take huge personal investment to develop over time. This means that they cannot easily be replaced by workers or technology. Despite the myth of movies like *The Replacements*, elite professional athletes cannot be substituted *en masse* and still provide a powerful, skilled and entertaining sport and spectacle. The inability to outsource, replace or move to a different venue means the owners are stuck with an ultra small elite and irreplaceable group of highly skilled elite employees.

Now two huge revisions have been made to traditional union values that promote egalitarian and limited wage differentials. First, athletes sign contracts that permit the teams/owners to trade the contract and trade them. This is incredibly rare; imagine Google trading an employee to Facebook!! The closest to this might be noncompeting contracts that some highly skilled employees sign. This enables a mini-market to occur across teams but players benefit from the loss of control of place of employment with strong portable pensions and benefits that build a substratum under all players. It also benefits everyone by creating strong minimum salaries and step increases.

The second major change from traditional unions is the free agency. Traditionally unions have been hostile to merit based compensation arguing that it undercuts solidarity and sets members against one another. This has been an Achilles heal for unions.

Professional sports unions solves this dilemma by permitting individuals to become free agents after set periods of time. The initial apprentice years have tracked salaries after bonuses, then after having served this time, free agency releases a player from the team and permits the player to sign with any other team. Now some restrictions exists in football, hockey and basketball about how many and levels of agency signing, but the point is that this permits players to have the advantages of unions—solidarity, portable benefits, strong control of entry salaries—with the advantages of strong merit based or market payments to players after they have served an apprentice period.

Another lingering aspect that makes unions strong by increasing the value of the players is that modern sports teams market themselves largely through star power or *faces* of the team. Teams invest immense money in their brands but they depend heavily upon a few hyped players with their faces and names splattered all over the city or nation to create a unique brand and bridge the emotional range from corporate team shells to fan association with the team.

One final point seals their stature. In economics many goods are vulnerable to competition because they can be substituted for. So if you take away my house, I can move to an apartment or condo. In professional sports, there are no easy substitute goods. It is interesting that many football fans will not find basketball a suitable substitute for football. Likewise baseball and hockey core fans will not regard the other sports as substitutes. So along with the limited labor market and difficulty to replace skills, lies the other problem that most sports cannot be substituted for by other sports. When a sports team leaves a town, people who watched that sport don't migrate to others; they might follow the sport on TV, find another team to root for, or simply lose interest. This cements the unique bargaining power of the elite athletes.

The success of modern sport unions depends upon player possessing a unique set of skills that counteract the anti-union pressures of a global market. I can't think of anywhere else it would work.

Posted by J. Patrick Dobel at 11:39 AM 