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FOOTBALL: ECONOMICS AND
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A REVIEW ESSAY**

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FINANCIAL FAIR PLAY IN EUROPEAN FOOTBALL: ECONOMICS AND POLITICAL ECONOMY

A REVIEW ESSAY

Angelo D'Andrea[♦] and Donato Masciandaro[♦]

Abstract

The 2010 UEFA Club Licensing and Financial Fair Play Regulations (FFPR) constitute an enhancement of the Club Licensing System, originally introduced in 2004-2005 with the aim to regulate the world of European football and create a more competitive and level playing field. The aim of this paper is to review the economic studies that have so far investigated the subject of Financial Fair Play Regulations, in order to provide a comprehensive overview of their pros and cons. Starting from a common assumption - that football clubs are special firms for reasons of economics and political economy - all but one of the reviewed articles criticize FFPR, by focusing on the Break-Even Requirement (BER), i.e. the principle according to which relevant expenses must be matched by relevant revenues. The critiques fall into three categories, highlighting that on the one side FFPR are likely to produce inefficiencies in labour markets, and, on the other side, they are likely to trigger unfair competition in football leagues, as well as freezing existing hierarchies in European soccer. The paper analyzes each individual critique, as well as the respective counterarguments.

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1. Introduction

The UEFA Club Licensing and Financial Fair Play Regulations (FFP Regulations) constitute an enhancement of the Club Licensing System introduced in 2004-2005 with the aim to regulate the world of European football and create a more competitive and level playing field. In order to be admitted to UEFA club competitions (Champions League and Europa League), every club must fulfill a series of requirements in regard to principles related to five categories: sporting, infrastructure, personnel, legal and financial requirements. After elaborate consultations with the top tier of European football, financial aspects have ended up dominating the entire system of regulation, and additional financial requirements have been put in place under the control of a new established central body: the Club Financial Control Body.

The reasons behind the introduction of financial rules in European football are straightforward. On announcing the new legislation in 2009, the UEFA President clearly stated:

"Fifty per cent of clubs are losing money and this is an increasing trend. We needed to stop this downward spiral. They have spent more than they have earned in the past and haven't paid their debts. We don't want to kill or hurt the clubs; on the contrary, we want to help them in the market. The teams who play in our tournaments have unanimously agreed to our principles... living within your means is the basis of accounting but it hasn't been the basis of football for years now. The owners are asking for rules because they can't implement them themselves - many of them have had it with shoveling money into clubs and the more money you put into clubs, the harder it is to sell at a profit."

Supporting the statement with numerical arguments, the aggregate net losses of top-division UEFA clubs from 2007 to 2011 had almost tripled (according to the UEFA Benchmarking Report of 2012). In the 2011 Financial Year an impressive 63% of European top-division clubs reported operating losses, while the percentage of clubs having negative net equity, and thus facing a situation with debts larger than reported assets, amounted to 38%.

FFPR is an attempt to bring discipline to a very peculiar sector. The football industry is characterized by three specific elements, at least. First of all, to its consumers, football is a very special product. In every part of the world, one could say since the dawn of modernization, it's easy to become a football fan. It's a simple game – all you need is a ball – but being forced to use your feet rather than your hands makes it very intriguing: there is little in terms of skill obstacles to be overcome (they'd be much bigger if one were forced to use only one's forehead), and football is something anybody can do, no matter his/her age and body shape. For consumers, rather than practitioners, of football, the pleasure is multiplied by various sources, both traditional, such as culture and tradition, and innovative, i.e. media. Most particularly, it's a form of entertainment characterized by high intensity and high variability; in financial terms, we could define soccer a high-risk/high-return product, with a very affordable price range.

And here comes the second specificity: football markets are continuously expanding. The combined effect of globalization and technological innovation keeps enlarging the perimeter of potential consumers of football as a product, with respect to other experiential dimensions and time/geography axes. At all moments, the consumer is fully *glocal*: he/she can satisfy his/her appetite for football by playing in the neighborhood team, or sit comfortably in the couch and watch, say, Italy-England (happening live in 2015, but if you so wish, you can also view the archived versions of the matches played in 1934 and 1973).

The third specific element has to do with the supply of football as product: the suppliers of football games, i.e. football clubs, are highly heterogeneous, in terms of size, objectives, organization and

governance structures. The range is immense: from professional football teams with a global market of transnational consumers, to minuscule amateur associations. It's a pyramid, and like all pyramids, it wouldn't be standing if it didn't have a gigantic base. In Italy only, 596,173 official games were played, in 12,131 regular football fields in the 2013-2014 football season, with a country average of one football associate per 56 inhabitants.

How is this pyramid governed in Europe? That's where the FFPR system comes in. In this review essay, we analyze the economic studies which so far have directly investigated the subject of Financial Fair Play Regulations. We seek to provide a comprehensive overview of their pros and cons.¹ Specifically we focus the analysis on the introduction of the break-even requirement, which is surely the cornerstone of the entire regulation, and try to draw some general conclusions.

Article 58-63 of FFPR (UEFA 2012) relates to the break-even requirement. It states that clubs are in compliance with this requirement, if "relevant expenses"² do not exceed "relevant income"³ by more than the "acceptable deviation"⁴ of €5M, in a string of reporting periods called "monitoring period"⁵.

Indeed, FFPR provide a degree of flexibility to the break-even clause, by allowing the "acceptable deviation" to exceed the € 5M threshold up to a level of €45M, provided that equity investors are willing to inject those funds. However, the perspective adopted by UEFA is that such extraordinary injections of money would have to decrease in the long run.⁶

What is the rationale for introducing FFPR centered on the BER principle? Following Franck (2014), we can summarize it as follows. Football clubs are very special firms. Compared to all the other firms they do not face the same threat of dissolution if they fail to balance their books systematically. This is an extraordinary peculiarity that distinguishes football clubs from all other firms, and it explains how competitive race in the industry can generally turn into a "zombie race". The latter is the term coined by scholars to describe an exceptional competition setting, in which different actors (clubs whose liabilities always exceed their assets) compete in a scenario which is technically of generalized bankruptcy. The FFPR aim to fight zombie races.

The concept of zombie race is intrinsically counterintuitive and raises a natural question: why do football clubs benefit from special financial regulation? And why does this positive discrimination persist?

¹ Another important branch of studies focuses on those legal issues that the FFPR introduction naturally arises (for a detailed review of these arguments see: Lindholm (2010), Long (2012), Kaplan (2014) and Petit (2014)).

² Article 58 (2) clarifies the notion of relevant expenses as follows: "Relevant expenses is defined as cost of sales, employee benefits expenses and other operating expenses, plus either amortization or costs of acquiring player registrations, finance costs and dividends. It does not include depreciation/impairment of tangible fixed assets, amortization/impairment of intangible fixed assets (other than player registrations), expenditure on youth development activities, expenditure on community development activities, any other non-monetary items, finance costs directly attributable to the construction of tangible fixed assets, tax expenses or certain expenses from non-football operations."

³ Article 58 (1) clarifies the notion of relevant income as follows: "Relevant income is defined as revenue from gate receipts, broadcasting rights, sponsorship and advertising, commercial activities and other operating income, plus either profit on disposal of player registrations or income from disposal of player registrations, excess proceeds on disposal of tangible fixed assets and finance income. It does not include any non-monetary items or certain income from non-football operations."

⁴ The notion of "acceptable deviation" is defined in Article 61.

⁵ The "monitoring period" assessed for the license season 2013/14 covers the reporting period ending 2013 and the reporting period ending 2012. From then onwards the three previous reporting periods will be assessed for every new license season. For example, in the 2014/15 license season the assessment will be performed based on the three reporting periods ending 2014, 2013 and 2012.

⁶ Article 61(2) of the FFP regulations (UEFA 2012) explains that the total acceptable deviation is fixed at € 30 m for the monitoring period assessed in the license seasons 2015/16, 2016/17 and 2017/18. A lower amount to be decided in due course by the UEFA Executive Committee will be binding for the monitoring periods assessed in later years.

The answer to this question is closely related to two main elements: the concept of Soft Budget Constraint (SBC) and the actors behind the world of football.

As regards the concept of the SBC, it has very ramified origins and it has been used profitably in economics and social science. Specifically, SBC theory deals with a rather complex causality chain involving the following three factors (Kornai et al. 2003):

- The political, social and economic environment in which SBC expectations are generated;
- The motives backing the choice for organizations to support or even bail out otherwise insolvent actors;
- The inefficiencies related to the SBC syndrome.

In our case, this means to find possible relationships between social actors that, as a final result, allow clubs to not be subject to hard budget constraints, but to soft ones. That points directly to the second part of the answer. In fact, football clubs are so powerful and different with respect to other firms because of the peculiarity of interests they give rise to, and the power of the actors that pull the levers behind the game. Franck (2014) identifies two principal actors: governments and private benefactors.

“Soft taxation”, “soft credit” and “soft administrative prices” (for a municipal stadium, for example) are forms of financial rescue provided by local and central government to bail out football teams. There are two main reasons that justify government support. First, if you were soft in the past you’re more likely to continue to be soft in the present, thus adversely reinforcing future expectations on SBC. Second, when a club shuts down, there are negative externalities for the local economy, creating strong arguments for governments to step in and take action against failures.

Benefactors running football clubs, on the other hand, may profit from the publicity and synergy provided by football activities in relation to other businesses they own. Gains in legitimacy, public acceptance and associated prestige are all elements that justify private involvement in teams continuously in the red.

Regardless of the actors favoring soft budget constraints for football and the motives behind such choices, Franck (2014) argues against these practices because of the resulting inefficiencies:

- Decreasing price elasticity of demand, talent shortage and the formation of “salary bubbles”;
- Managerial moral hazard with high levels of risk and low levels of care;
- Managerial rent-seeking behavior, leading to weak incentives to innovate the business;
- Crowding out of good management caused by unlimited injections of capital into payrolls.

The final effect of this complex chain of events that involves football clubs, governments, sugar daddies and soft budget constraints is such that a normal competitive race mutates into a zombie race. All the clubs competing in a league are on the verge of insolvency, spending a lot more than they earn, and completely relying on external funds and state help to pump oxygen in their ailing accounts. Against this background, what are the effects of Financial Fair Play Regulations?

It is worth noting that, of the five reviewed papers, four of them are skeptical on the introduction of FFP Regulations, while just one - Franck (2014) - presents arguments in favor of having such rules. Criticism falls into three categories:

- 1) Through the introduction of FFPR, UEFA forgoes potential benefits stemming from unlimited injections of external capital into football payroll, which could determine Pareto inefficiencies (Madden, 2014);
- 2) UEFA FFPR are similar to US salary caps but probably worse articulated. They limit competition in the player market and put downward pressure on salaries without achieving benefits from increased competitiveness (Peeters and Szymanski, 2013);
- 3) UEFA FFP Regulations tend to freeze and ossify the existing hierarchy of European football, creating important barriers to entry (Sass 2012 and Vöpel 2013).

Franck (2014) analyzes those criticisms and discusses the likely effects of the new regulation. He uses all the above arguments as a starting point for his research and finds that all the above critical points turn out to be unfounded.

In our paper we analyze each single critique in detail, and then we evaluate and discuss their respective merits. The outline of the paper is as follows. Section 2 analyzes the claim that FFPR can potentially decrease the amount of private funding going to European football. Section 3 covers issues of competition and wage dynamics. Section 4 analyzes the effects of FFPR in terms of ossification of the hierarchy of European football clubs. Section 5 concludes.

2. FFPR and distortions in the labour market

The first critique to the introduction of FFPR was made by Madden (2012). The idea behind his argument is very simple: by preventing benefactors (also known as “sugar daddies”) from injecting unlimited quantity of external capital into the football market, the overall level of European football’s competitiveness would decrease as a consequence.

Here, we propose the most recent version of the model by Madden (2014). By evaluating basic consumer surpluses, the model argues that the imposition of the Break-Even Requirement (BER) creates Pareto inefficiencies.

Consider a league composed by two types of teams: a “big market” club and a “small market” club, where the difference in market sizes stems from the number of fans each team holds. The fans buy tickets at a given price and share heterogeneous preferences, depending on the quality of their team, as well as on the average quality of the visiting teams. Quality is measured by the amount of talent in a team. There is a limited supply of talent provided from heterogeneous football players, and conditions are such that there is market clearing in the talent market. In fact, talent supply and talent demand by clubs are always in equilibrium and the market clearing price sets the wage (a player’s salary).

The supply of talent is simply defined by:

$$S(W) = w^\varepsilon$$

Where w denotes the pricing of a unit of soccer talent while $\varepsilon \in [0, \infty]$ represents the elasticity of S .

The fan ticket evaluation is $v(t_{in}, \bar{t}) = t_{in}^\alpha \bar{t}^\beta$, where t_{in} is the talent level of team $n \in [0,1]$ of type $i (= 1,2)$ and $\bar{t}$ is the average quality of the teams in the league. Football fans are highly partisan. Indeed, $\alpha > \beta > 0$ means that supporters prefer their team to be better than the opponent ($\alpha > \beta$), but also have some preferences for rival teams to be of good quality ($\beta > 0$).

Finally, the demand for tickets is characterized by the following equation:

$$D_{in}(t_{in}, \bar{t}, p_{in}) = \mu_i [v(t_{in}, \bar{t}) - p_{in}]$$

In which: p_{in} is the ticket price; $v(t_{in}, \bar{t})$ can be seen as a fan's utility function; and μ_i represents the fan base (where $\mu_1 > \mu_2$, meaning that type 1 teams have larger fan bases - i.e. they are "big market" clubs).

The owner's utility function is assumed to be similar to the fan's:

$$U_{in} = \lambda_i u[v(t_{in}, \bar{t})] - I_{in} + m_{in}$$

Here, m_{in} is the owner's wealth and I_{in} relates to the amount of funds injected by the owner. $I_{in} = w t_{in} - p_{in} \mu_i [v(t_{in}, \bar{t}) - p_{in}]$ could even be negative, meaning that the owner is squeezing profits out of the football association. Moreover, it is assumed that $m_{in} > I_{in}$, allowing owners to provide the optimal amount of funds needed by the club whatever the situation. Finally, λ_i is a parameter denoting the generosity of the benefactor. Of course, if $\lambda_i = 0$, the owner becomes a pure profit-maximizer. Now, there could be three different motives why benefactors decide to inject funds in football teams:

MOTIVE 1: private consumption benefits from ownership;

MOTIVE 2: desire to please the fans and be appreciated by them;

MOTIVE 3: economic or political advantages of becoming famous in the football environment.

The model assumes the first of the above motives, but negligible changes need to be made for dealing with the other two motives (for the details, see Madden and Robinson (2012)). Given his pure private consumption objective and his monopoly power over the team's fans, the owner chooses the revenue-maximizing price:

$$p_{in} = \frac{1}{2} v(t_{in}, \bar{t})$$

In this model, the equilibrium is characterized by a wage, a given set of talent allocations among the clubs, and specific values of ticket prices that simultaneously clear the talent market and are consistent with the optimizing behavior of owners and fans.

The model considers the competitive equilibrium in a football market when there are no financial constraints and had already been analyzed in depth by Madden (2012). What Madden (2014) adds to the discussion is the impact that introducing the BER has on the laissez-faire equilibrium.

POINT 1:

The imposition of the BER reduces the desired aggregate expenditure on players by owners, with negative effects on the league's average quality ($\bar{t}$) and players' salaries (w) (the effect strictly depends on the talent supply function being upward sloping).

POINT 2:

Even supposing a symmetric league where all clubs are equal in talent and owners are equal in generosity, BER leaves the competitive balance intact, but, because of POINT 1, the quality of all teams decline. Hence, the choke price on demand $v(t_{in}, \bar{t})$ decreases for both types of clubs producing a parallel downward shift. Ticket prices also fall, but only by half of the choke price reduction. The result is a global decrease in fans' relative surpluses.

POINT 3:

Suppose that the big market club is led by a benefactor owner, whereas the small market club is run following profit maximization criteria. The introduction of BER will surely produce a decrease in the overall level of league's quality ($\bar{t}$) and it will restrict type 1 owners' spending (fall in t_1). There is no such a huge impact on t_2 and the final result is that this policy leads towards an improvement in the competitive balance. However, that may not even be the case. For fans of the big market clubs, there is no doubt their surpluses are bound to decrease (see POINT 2). Nonetheless, also the fans of smaller clubs can experience a reduction of their consumer welfare. First, the decrease in the level of t_1 indirectly affects their marginal revenue functions, the larger reductions occurring when β is relatively large. Second, if ϵ is quite high then any average quality decline will be accompanied by only a small reduction in wages, leading small clubs to reduce their levels of talent t_2 . Then both t_1 and t_2 would fall, meaning that (as in POINT 2) surpluses of all fans fall.

PRELIMINARY CONCLUSION:

If $\epsilon > \frac{1}{2\beta}$ then BER causes the downfall of fan surplus. Bottom line: the budget constraint triggers the fans' utilities via the squeezing of the supply of talent.

POINT 4:

It could be the case (precisely when β and ϵ are low enough) that t_2 goes up and that surpluses of the fans of team 2 rise. However, the introduction of BER decreases the surpluses of type 1 fans. Since the latter are larger in number than the former, the aggregate effect will always be a generalized worsening of consumer surpluses.

POINT 5:

The effect of BER on owners is relatively more difficult to measure. For $\epsilon = 0$ or small enough, owners may well be in favor of BER imposition because they save on wage inflation with no quality negative spillovers. At large ϵ however, this can turn around. The laissez-faire arms race now produces significant quality increases without wage inflation. In this case, owners as well as fans and players are worse off by the BER introduction.

GENERAL CONCLUSION:

The imposition of the BER never leads to a Pareto improvement. On the contrary, it could generate Pareto inefficiencies. First, there is a clear shift of rents from players to owners. Second, fans are usually crowded out by regulation effects and their surpluses generally shrink. Finally, owners could benefit from this arrangement, but only under certain assumptions (low levels of β and ϵ). In conclusion, the

introduction of the break-even requirement produces a reduction in the overall quality of the league and, consequently, a decrease of its appeal.

At first sight, the conclusions made by Madden seem to be confirmed. Less money into the field could translate into a lesser quality of the league, lower salaries for players and dissatisfied consumers. However – as Franck (2014) points out – the general mechanism could be stopped at an early stage. The translation of capped payrolls into less money for football is far from being automatic. Benefactors can still continue to fund football activities liberally by using different means. In this case, ex-post injections of capital would need to be substituted by ex-ante sponsorship agreements (obviously at their fair value, which is not subject to the BER jurisdiction).

In this way, two negative elements would be kept at bay: the overall amount of money would not decrease by much; fair market value sponsorship agreements would not create expectations on toleration of soft budgets with all the associated problems. Moreover, there are several compensating effects that could boost future financial assets for clubs and that are generally overlooked in the literature: money that would have otherwise been spent on players could instead go to fund youth soccer academies, community projects, sports facilities and football stadiums; further, there is room to generate more money by enabling managers to work under hard budget constraints rather than soft budget ones, thus avoiding all the inefficiencies deriving from problems of moral hazard.

3. Competition in football leagues: FFPR vs salary caps

The second critique of the introduction of FFPR concerns the level of competitiveness in tournaments. Notably, some scholars have claimed that introducing financial restrictions such as the BER clause could generate reductions in terms of competitive balance.

One relevant work in this respect is that of Preuss et al. (2013). Applying a simple game theoretical framework to FFPR, they claim that introducing financial requirements in European football can produce unintended or even adverse effects. Caught in a situation similar to that of the Prisoner's Dilemma, clubs have strong incentives to bypass the new regulation, which imposes additional costs both on clubs, as well as on UEFA, which must spend additional resources to detect deviant behavior. Since those costs are probably more easily sustained by rich clubs rather than small one, there could be negative consequences for a league's level of competitiveness.

In this section we present one of the most comprehensive works in reference to the topic of FFPR in European football – i.e. Peeters and Szymanski (2013). Thanks to it, we are able to analyze the assumptions under which FFPR requirements are not good guarantors of the competitive balance in European soccer, and we are also able to discuss a potential alternative, namely the US-style salary cap on the earnings of professional players. The authors develop a stylized model of football league competition, and test it in order to find empirical evidence in favor or against the introduction of the BER constraint. The model can be briefly summarized as follows.

Firstly a contest function is defined, that determines the mechanism of winning/loosing/drawing that governs team contests:

$$y_{ijt} = \begin{cases} \text{win } j \leftrightarrow y_{ijt}^* = \frac{\omega_{it} p_{it}^{\beta_d}}{\omega_{jt} p_{it}^{\beta_d}} \exp(\varepsilon_{ijt}) \leq \alpha_1 \\ \text{draw} \leftrightarrow \alpha_1 < y_{ijt}^* = \frac{\omega_{it} p_{it}^{\beta_d}}{\omega_{jt} p_{it}^{\beta_d}} \exp(\varepsilon_{ijt}) \leq \alpha_2 \\ \text{win } i \leftrightarrow \alpha_2 < y_{ijt}^* = \frac{\omega_{it} p_{it}^{\beta_d}}{\omega_{jt} p_{it}^{\beta_d}} \exp(\varepsilon_{ijt}) \end{cases}$$

In this case, y_{ijt} represents the outcome of a football match between home team i and away team j in season t . The difficulty of this specification stands in expressing continuous variables, such as the wages, into discrete variables as the outcome of the match. In doing this, a continuous variable y_{ijt}^* is introduced, which drives the results of the contest depending on the achieving or not of some specific thresholds α . To grasp the y_{ijt}^* parameter intuitively, it is useful to define its components: p_{it} and p_{jt} are the investments in payroll made by home team and the away team, weighted by the parameter β_d . β_d is a division-specific measure of the impact of payroll investments on the outcomes of contests; ω_{it} and ω_{jt} stand for team-specific productivities; ε_{ijt} is an exponential noise term allowing for chance in shaping football results; finally, the equation cannot capture the home advantage effect, since this is given by factors α_1 and α_2 .

Once defined the contest function, a revenue equation is proposed:

$$\log(r_{it}) = \beta_w \log(w_{it}) + \beta_k \log(k_{it}) + \gamma_i + \gamma_{dt} + v_{it}$$

In this equation: w_{it} relates to the number of matches won by the team; k_{it} is a proxy for stadium value; γ_i controls for the size of the team's local market; γ_{dt} is a dummy division; and v_{it} is the error term.

Team profits are simply given by the difference between revenues and costs. Where costs are given by the sum of payroll and non-payroll operations (c_{it}):

$$\pi_{it} = r_{it}(w_{it}(p_{it}, p_{-it})) - p_{it} - c_{it}$$

The owner's individual utility function, which depends positively on both profits and games won, is given by:

$$U_{it}(\pi_{it}^+, w_{it}^+)$$

Ex-ante the owner maximizes his utility function by choosing a specific budget constraint:

$$b_{it} = r_{it}(w_{it}(p_{it}, p_{-it})) - p_{it} - c_{it}$$

In fixing the budget constraint, the owner can choose between at least two options. On the one hand, he could set a positive amount he wants to earn as return on investment. On the other hand, he could set a negative amount he is willing to suffer in order to achieve better sport results. Basically, he could act as a profit-oriented businessman or as a sugar daddy depending on his own tastes in terms of monetary versus points payoffs.

Given the budget constraint, owners maximize the sport performances of their teams. That is to say, they choose that particular level of investments that perfectly matches the point in which the owner's budget constraint is binding. Moreover, since the talent of football players is dependent on both performances and wages, they tend to minimize non-payroll costs and emphasize wage spending. As a result, owners set payroll value p_{it}^* such that the owner's budget constraint is completely satisfied:

$$b_{it} = r_{it}(w_{it}(p_{it}^*, p_{-it}^*)) - p_{it}^* - c_{it}$$

When all owners perform the above choices, a Nash equilibrium arises: all teams set their best strategy, given the strategies of all the other teams.

The introduction of the break-even requirement in this framework implies that regulators fix a lower bound, b_{it}^{FFP} , on negative budget constraints. Owners that are willing to incur large financial losses, in order to make their teams more competitive, are not allowed to do so. Payrolls shrink (since the model assumes that other costs have been already minimized) and profits generally increase. Of course, the reaction of the owners to this chain of events depends on their relative taste for monetary vs score payoffs. There is no way to directly estimate owners' utility functions. Hence, two extreme cases are assessed.

In the "profit" scenario, owners seek to gain money from football. All the extra profits are taken away from the team's assets and the consequences of the BER introduction can be summarized as follows:

- payroll falls for at least one constrained club (the club for which $b_{it}^{FFP} > b_{it}$);
- payrolls for affected clubs cannot increase;
- for unconstrained clubs, payroll is not affected.

In the "win" scenario, owners give more importance to sport outcomes. In this case, they invest any extra profits to increase the quality of the team. Results of BER introduction are the following:

- payroll falls for at least one constrained club (the club for which $b_{it}^{FFP} > b_{it}$);
- all other constrained clubs may experience an increase or a decline in their payrolls;
- payrolls rises for all the unconstrained clubs.

After having stylized the basic lines of the theoretical model, the authors proceed through the empirical analysis. The aim of the empirical analysis is that to come up with some significant econometric findings, in terms of payroll and competitive balance effects, that result from the introduction of the FFPR. The dataset consists of a huge set of data gathered on four major European football leagues, i.e. the English, Spanish, Italian and French professional leagues. In order to analyze the introduction of the BER constraint, the core elements of the model have to be defined.

The productivity of clubs is probably the most complicated variable to measure. To find the proper proxy, the authors rely on club fixed effects and instrumental variables. They focus on two different kinds of IVs: the tenure of the current owners and the level of tangible fixed assets (both positively related to team's productivity). Then, they estimate the contest function using no productivity controls (NC), fixed

effects (FE) and IVs (O-P)⁷. On the whole, wage spending has a positive and significant effect on match results in all countries.

A further equation needs to be identified, that of total revenues. Again, the data fit quite well the assumptions of the model. The relative number of points obtained by a team during the season is a highly significant driver of clubs revenues in all the leagues. Once defined the core elements, the process of simulation is implemented.

Authors look at five different cases. First, they simulate the model keeping wages unchanged (“no FFPR”). Then, they simulate distinct scenarios considering four values of acceptable deviation: €15M per season; €10M per season; €5M per season; and the “final” scenario of €5m over three consecutive seasons. For each single scenario they perform both the specifications with FE and O-P estimates of the contest function.

The simulation proceeds in five steps. First, budget constraints are adapted for each restricted team and the new payroll values are calculated. Second, the new payrolls are used to find out new values of points gained and revenues earned for all teams. Third, all payrolls are readapted in order to ensure the Nash equilibrium condition. This operation is performed using either the assumption of the “profit” or the “win” scenario. Fourth, total points for each club and revenues are recalculated. Fifth, the payrolls are again adjusted following the reasoning of step three until the Nash equilibrium is finally achieved and each club simultaneously chooses its optimal payroll.

Results from the empirical simulation are as follows:

- As a consequence of the introduction of BER, payrolls decline significantly across leagues and regimes;
- Average revenues are not significantly affected by BER;
- The wage-to-turnover ratio (indicator for the profitability of the club) unambiguously decreases;
- Total wage spending decreases.

Table 1 summarizes the findings.

⁷ O-P stands for Olley and Pakes (1996). The idea to infer productivity levels using instrumental variables stems from their studies on the production function.

Table 1: summary of simulation results

		no FFP	€ 15m				€ 10m				€ 5m				final			
			profit		Win		profit		Win		profit		Win		profit		Win	
			O-P	FE	O-P	FE	O-P	FE	O-P	FE	O-P	FE	O-P	FE	O-P	FE	O-P	FE
wage	Eng	85.6	73.2 (0.2)	73.7 (0.2)	74.0 (0.1)	74.1 (0.1)	70.8 (0.3)	71.4 (0.3)	71.7 (0.2)	71.9 (0.1)	67.8 (0.5)	68.6 (0.3)	69.0 (0.2)	68.6 (0.3)	65.4 (0.8)	66.4 (0.4)	66.8 (0.2)	67.0 (0.1)
	Spa	52.2	51.2 (0.0)	51.2 (0.0)	51.2 (0.0)	51.2 (0.0)	50.0 (0.0)	50.0 (0.1)	50.1 (0.0)	50.1 (0.0)	48.0 (0.1)	48.0 (0.4)	48.3 (0.0)	48.0 (0.4)	46.2 (1.0)	46.3 (1.6)	46.8 (0.4)	46.8 (0.4)
	Ita	58.8	49.7 (0.7)	50.6 (0.7)	50.0 (0.6)	50.7 (0.4)	48.0 (0.8)	49.1 (0.7)	48.5 (0.9)	49.3 (0.5)	45.9 (1.2)	47.1 (0.7)	46.5 (1.0)	47.1 (0.7)	44.1 (1.1)	45.4 (0.7)	44.8 (1.3)	45.6 (0.7)
	Fra	39.5	38.4 (0.0)	38.5 (0.1)	38.5 (0.0)	38.5 (0.0)	37.9 (0.0)	37.9 (0.1)	37.9 (0.0)	38.0 (0.1)	36.7 (0.1)	36.8 (0.2)	36.9 (0.1)	36.8 (0.2)	35.3 (0.1)	35.4 (0.2)	35.6 (0.1)	35.7 (0.1)
rev.	Eng	125.9	125.7 (5.9)	125.7 (5.9)	125.7 (5.3)	125.7 (5.9)	125.6 (5.9)	125.6 (5.9)	125.6 (5.2)	125.6 (5.9)	125.5 (5.9)	125.6 (5.9)	125.5 (5.2)	125.6 (5.9)	125.5 (5.9)	125.6 (5.9)	125.5 (5.2)	125.6 (5.9)
	Spa	70.7	70.6 (3.8)	70.5 (4.2)	70.6 (4.0)	70.5 (4.0)	70.6 (3.8)	70.5 (4.2)	70.6 (4.0)	70.5 (4.0)	70.7 (3.8)	70.5 (4.2)	70.7 (4.0)	70.5 (4.2)	70.8 (3.9)	70.6 (4.3)	70.8 (4.0)	70.6 (4.0)
	Ita	103.4	102.4 (6.4)	104.3 (6.1)	102.3 (6.3)	104.3 (6.2)	102.3 (6.4)	104.2 (6.1)	102.2 (6.3)	104.2 (6.2)	102.2 (6.6)	104.2 (6.1)	102.2 (6.6)	104.2 (6.1)	102.3 (6.6)	104.3 (6.1)	102.2 (6.7)	104.2 (6.2)
	Fra	52.7	52.6 (1.5)	52.7 (1.6)	52.6 (1.6)	52.7 (1.7)	52.6 (1.5)	52.6 (1.6)	52.6 (1.6)	52.6 (1.7)	52.5 (1.5)	52.6 (1.6)	52.5 (1.6)	52.6 (1.6)	52.5 (1.5)	52.6 (1.6)	52.5 (1.6)	52.6 (1.6)
wtto	Eng	74.1%	65.4% (2.9%)	65.8% (2.9%)	66.3% (2.8%)	66.2% (2.9%)	63.4% (2.8%)	64.0% (2.8%)	64.6% (2.8%)	64.6% (2.8%)	60.5% (2.8%)	61.3% (2.7%)	61.9% (2.7%)	61.3% (2.7%)	57.9% (2.8%)	58.8% (2.6%)	59.3% (2.6%)	59.5% (2.6%)
	Spa	76.8%	75.7% (3.7%)	75.6% (4.4%)	75.8% (4.0%)	75.7% (4.3%)	73.5% (3.6%)	73.4% (4.3%)	73.8% (3.9%)	73.7% (4.2%)	68.7% (3.4%)	68.6% (4.1%)	69.3% (3.7%)	68.6% (4.1%)	64.3% (3.5%)	64.3% (4.2%)	65.4% (3.5%)	65.2% (3.7%)
	Ita	54.3%	50.8% (3.0%)	51.2% (2.8%)	51.4% (3.1%)	51.4% (2.9%)	49.6% (2.9%)	50.1% (2.7%)	50.4% (3.1%)	50.3% (2.9%)	47.4% (2.9%)	48.0% (2.6%)	48.4% (2.9%)	48.0% (2.6%)	44.9% (2.7%)	45.7% (2.5%)	46.2% (2.8%)	46.1% (2.6%)
	Fra	75.1%	74.2% (2.1%)	74.3% (2.2%)	74.4% (2.2%)	74.4% (2.3%)	73.7% (2.1%)	73.8% (2.1%)	73.9% (2.1%)	74.0% (2.2%)	72.0% (2.1%)	72.1% (2.1%)	72.5% (2.1%)	72.1% (2.1%)	69.0% (2.0%)	69.2% (2.1%)	69.8% (2.0%)	69.8% (2.1%)
restr. teams	Eng				45%				50%				65%				70%	
	Spa				10%				35%				45%				50%	
	Ita				20%				30%				50%				60%	
	Fra				10%				10%				30%				45%	

Source: Peeters and Szymanski (2013).

As a final step of their analysis, the authors investigate the effects of the BER constraint on the distribution of points between teams. To this extent they compare the FFPR to the introduction of a North-American style salary cap.

Results are presented in the table below.

Table 2 : Simulation results FFP vs. conventional cap

		no FFP/cap	€ 15m	cap 1	€ 10m	cap 2	€ 5m	cap 3	final	cap 4
Mean wage	England	85.6	74.0	74.8	71.7	71.6	69.0	68.3	66.8	67.4
	Spain	52.2	51.2	51.2	50.1	50.4	48.3	48.4	46.8	46.5
	Italy	58.8	50.0	49.6	48.5	48.1	46.5	46.1	44.8	44.1
	France	39.5	38.5	38.5	37.9	37.7	36.9	37.1	35.6	35.9
Mean absolute points diff.	England		3.5	2.2	4.5	3.1	5.5	4.1	6.1	4.7
	Spain		0.3	0.1	0.6	0.1	1.6	0.3	2.5	0.5
	Italy		1.6	2.2	1.9	3.1	2.6	4.1	3.4	4.7
	France		0.4	0.3	0.6	0.6	1.2	0.9	2.0	1.4
Max points diff.	England		16.3	11.0	17.5	13.0	18.4	15.3	18.8	16.5
	Spain		2.2	0.9	4.5	1.3	7.2	2.2	9.9	3.2
	Italy		11.7	11.0	12.7	13.0	13.5	15.3	13.6	16.5
	France		2.6	1.8	3.7	3.3	4.7	4.7	5.1	7.0
Standard deviation points	England	17.2	15.8	15.0	15.8	14.1	16.2	13.1	16.8	12.5
	Spain	11.3	11.3	11.2	11.4	11.1	11.7	10.9	12.3	10.6
	Italy	11.6	9.7	9.7	9.4	9.4	9.3	8.9	9.6	8.4
	France	10.1	9.8	9.8	9.5	9.5	9.4	9.2	9.5	8.6

Source: Peeters and Szymanski (2013).

The standard deviation of points appears to be differently affected by the FFPR compared to a salary cap, and it also depends on the level of stringency of the respective regimes. In the least stringent regimes, the introduction of BER might improve the competitive balance, because it mostly penalizes larger clubs. However, as regimes become more stringent, small teams are affected as well and the overall balance suffers from increased inefficiencies. A salary cap, on the other hand, always increases the level of competition and if the caps are made more stringent, the policy performs even better. Furthermore, the authors find that salary caps always behave better than FFPR regardless of the peculiarities of each scenario.

The final conclusion is that:

- The introduction of BER could not determine an increase in the general level of competitiveness. Under certain conditions, conversely, it could generate inefficiencies.
- Absent the chances to incur losses, it becomes increasingly difficult, if not impossible, for small teams to challenge the dominance of top clubs.
- The introduction of a North-American style salary caps could provide an intriguing alternative to the regulation of European football.

Franck (2014) provides counterarguments against the above critique. His analysis is as brief as precisely targeted. First of all, FFPR formulate quite reasonable rules. Compared to US salary caps, FFPR represent a very “tolerant” kind of competition restriction. Franck agrees with Peeters and Szymanski (2013) that the introduction of BER binds some football clubs and puts downward pressures on salaries. However, he also states that those effects are only temporary. Indeed, if FFPR works, restoring incentives

for good management and strengthening budget constraints, then new revenues will be produced and higher wages than in the current system will be generated.

Then, he also claims that US-style salary caps constitute the wrong benchmark to which to compare FFPR. The question of whether UEFA should introduce salary caps rather than the FFPR is redundant. European football is based on a different mechanism of suspense with respect to America's favorite sports. Competitive regulation via absolute salary caps is simply not possible.

In fact the European football system is not suitable for salary cap rules for at least two reasons:

- the system of promotions, relegations, qualifications to UEFA cups does not allow the imposition of inflexible rules;
- the "multi-level filtering" between different divisions and countries, that characterizes European football, needs a certain level of competitive imbalance to perform well.

Therefore, even considering that salary caps are more efficient than FFPR in terms of improving competition, there is no way to export such an instrument in the European framework, unless a complete overhaul of the European soccer is undertaken. In addition, the creation of a single league in a common market setting, as well as the formation of heterogeneous leagues with comparable revenues, do not seem to be on the top the policymakers' agenda today.

4. FFPR and competitive balance: the ossification effect

The third critique has to do with the danger that European leagues become ossified, once FFPR are in force. This kind of criticism directly derives from the second one. As competition is already decreasing within each national league, the effect of the introduction of FFPR would be to freeze the current set-up, by making it difficult, if not impossible, for small clubs to challenge the dominance of top clubs.

Two works have put particular emphasis on the likelihood of such occurrence: Sass (2012) and Vöpel (2013) (see also Budzinski (2014) and Petit (2014) for further insights). The aim of this section is that to present their models and then, as usual, to offer the counterarguments in favor of the FFPR guidelines.

Sass (2012) provides a dynamic model of professional teams competing with each other, showing that in the long run there is only one steady-state equilibrium, in which big clubs dominate small clubs and the competitive balance is maximally uneven. The starting point is a single-period model.

The league is composed by two teams ($i = 1, 2$). The clubs differ with respect to potential revenues. Revenues are function of: m_i , the club's market size (assumed exogenous); w_i , the club's winning percentage; and $1 \leq \beta \leq 2$, the preference for the uncertainty of outcomes. The winning percentage has positive but decreasing marginal effects. In fact, at a certain point the team could become too dominant, and the interest of supporters, as well as revenues, could consequently wane. β measures the preference for tight matches. The revenue function is concave and is represented by the following equation:

$$R_i(w_i, m_i, \beta) = m_i w_i - \frac{m_i}{\beta} w_i^2$$

A flexible talent supply is available at constant marginal cost $c > 0$. A team's winning percentage depends on both the talent quality of the team itself, and the quality of competing clubs. A simple Tullock contest function is posited:

$$w_i = \frac{T_i}{T_i + T_j}$$

Clubs maximize their level of quality choosing the maximum number of talents, subject to a zero-loss budget constraint:

$$\max_{T_i} w_i \quad s. t. \quad R_i - cT_i = 0$$

Since bringing in additional talent increases the percentage of victories, the two clubs find themselves locked in a strategic rent-seeking game. Their reaction functions are equally expressed by the following formula:

$$T_i = \frac{-\frac{m_i}{\beta} + m_i - 2cT_j + \sqrt{\left(m_i - \frac{m_i}{\beta}\right)^2 + \frac{4cm_iT_j}{\beta}}}{2c}$$

The intersection point of the two reaction functions identifies the Nash equilibrium of the game. The ratio of the amounts of talent owned by the two clubs in equilibrium represents the competitive balance and it solely depends on the market size (that is assumed to be exogenous). More, taking into account the above assumptions about the budget constraint, club i 's winning percentage can be easily calculated as:

$$w_i^* = \frac{\beta(m_i - m_j) + m_j}{m_i + m_j}$$

Without loss of generality, we set $m_i + m_j = 1$. Since $1 \leq \beta \leq 2$, the following condition about market size holds:

$$\frac{\beta - 1}{2\beta - 1} \leq m_i \leq \frac{\beta}{2\beta - 1} \quad \rightarrow \quad \frac{1}{3} \leq m_i \leq \frac{2}{3}$$

Finally, assuming $m_i^{\min} = \frac{1}{3}$ as the amount of unconditionally loyal supporters and $m_i^{\max} = \frac{2}{3}$ as the greatest amount of people that could become fan of team i , maximum and minimum values of the winning percentage are easily derivable:

$$w_i^{\max} = \frac{(\beta + 1)}{3} \quad \text{and} \quad w_i^{\min} = \frac{(2 - \beta)}{3}$$

The model is set up in a way that clubs operating in bigger markets generate higher revenues. These higher revenues are usually reinvested to buy talented players, and this in turn means that big clubs generally outperform small clubs on the playing field. Then the author introduces the multi-period model. The conditions remain quite similar but for a crucial change: market size becomes endogenous and depends on the club's history of victories. This idea comes from what is infamously known amongst sports fans as the "glory hunter" phenomenon: by collecting trophies, a club manages to attract spectators who previously were not connected to it. However soon after that star of success ceases to shine, the glory hunters jump ship and market size consequently decreases. A recursive symmetric market size function is used to model the endogeneity of market size:

$$m_i^t = m_i^t(w_i^{t-1}) \quad \text{with } m_i + m_j = 1$$

A club's revenues in season t are given by:

$$R_i^t(w_i^t, m_i^t(w_i^{t-1}), \beta) = m_i^t(w_i^{t-1})w_i^t - \frac{m_i^t(w_i^{t-1})}{\beta}w_i^{t2}$$

Talent supply follows the same rules of before, with the addition that talents hired in the previous period do not persist in the next period. Hence, the only constraints to clubs' decisions are their own budgets. In each period, clubs maximize their winning percentage under a seasonal break-even introduced by the new UEFA Financial Fair Play Regulations. Under those regulations, clubs cannot use savings from the previous period to balance losses in the present period. As a result, all clubs dominant strategy becomes that to spend the entire seasonal revenues on player salaries. Equilibrium values of winning percentages are the same as those in the single-period model:

$$w_i^{t*} = \frac{(m_i^t - m_j^t) + m_j^t}{m_i^t + m_j^t}$$

Now, assuming a market size function with the following properties:

$$\begin{aligned} m_i^t &= m_i^{\min} \quad \text{for } w_i^{t-1} \leq w_i^{\min} \\ m_i^t &= m_i^{\max} \quad \text{for } w_i^{t-1} \geq w_i^{\max} \\ \frac{dm_i^t}{dw_i^{t-1}} &> 0 \quad \text{for } w_i^{\min} < w_i^{t-1} < w_i^{\max} \\ \frac{d^2m_i^t}{dw_i^{t-1}^2} &> 0 \quad \text{for } w_i^{\min} < w_i^{t-1} < \frac{1}{2} \\ \frac{d^2m_i^t}{dw_i^{t-1}^2} &= 0 \quad \text{for } w_i^{t-1} = \frac{1}{2} \\ \frac{d^2m_i^t}{dw_i^{t-1}^2} &< 0 \quad \text{for } \frac{1}{2} < w_i^{t-1} < w_i^{\max} \end{aligned}$$

there are two possible long-term equilibria:

$$w_1^* = w_2^* = m_1^* = m_2^* = \frac{1}{2}$$

and

$$w_1^* = w_i^{max} ; m_1^* = m_i^{max}$$

$$w_2^* = w_i^{min} ; m_2^* = m_i^{min}$$

The first equilibrium is unstable. Any shock to either market size or winning percentage would cause the path to converge towards the second equilibrium. The intuition behind this is straightforward. A club becoming more successful at time t will end up attracting more people in time $t + 1$, and therefore will enjoy greater market size in $t + 1$. As a consequence, club's revenues increase and a high quality team will be set up. The more the talent in the team, the higher the winning percentage in $t + 1$. The higher the winning percentage, the larger the market size will be at time $t + 2$ and so forth. The growth of the market size slows down over time until the new equilibrium is reached, where:

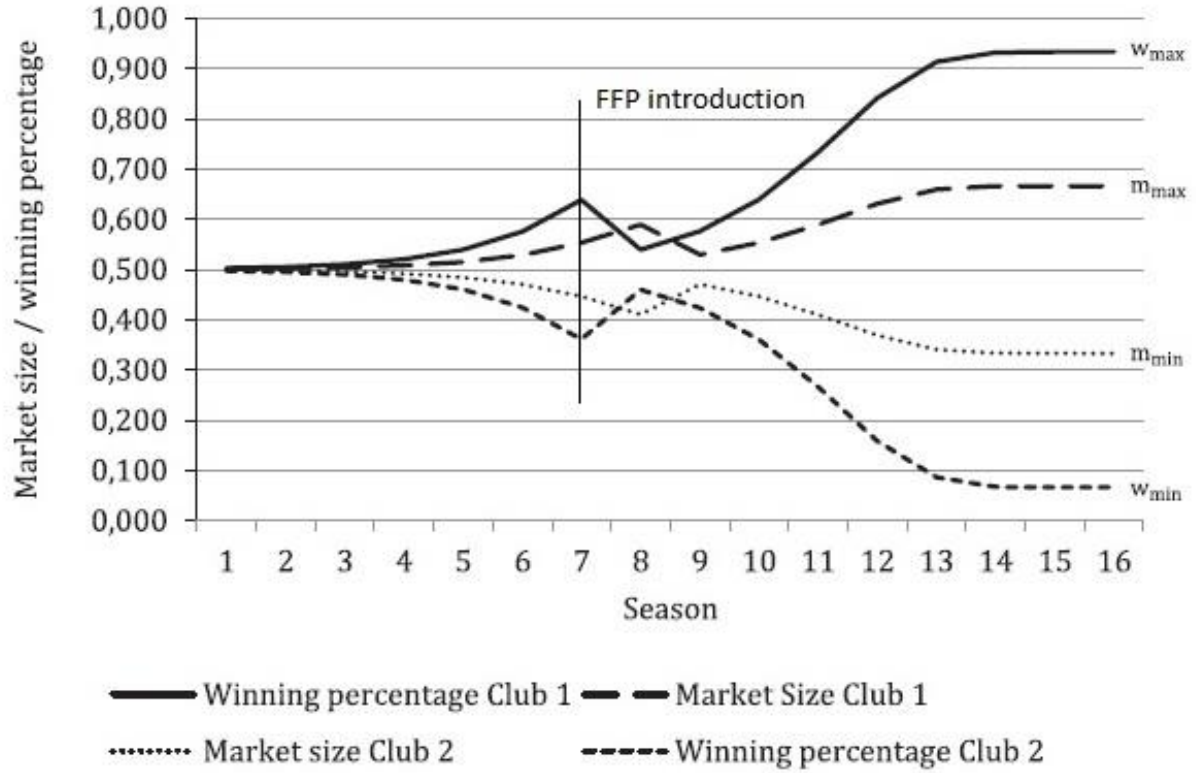
$$w_1^* = w_i^{max} ; m_1^* = m_i^{max}$$

and

$$w_2^* = w_i^{min} ; m_2^* = m_i^{min}$$

The model predicts that big clubs will become bigger and bigger over time, while small clubs will become smaller and smaller. In the long-run, bigger clubs end up completely dominating small clubs. Since small clubs cannot overspend in the future (because of the introduction of the BER), they are unable to halt this process and a maximally uneven competitive balance occurs. The process of ossifying the hierarchies in European football is indeed in place. The figure below summarizes these findings.

Figure 1: External shock to club's winning percentage



Source: Sass (2012).

The second model we introduce in this section is Vöpel (2013). Using a dynamic model of competition among football clubs, the author comes out with a similar conclusion to Sass (2012). Even if with possible benefits in terms of financial stability, the introduction of FFPR should determine a considerable decrease in the level of competitive balance among European football clubs. The model is quite simple and it relies on the usual assumptions.

Profits are defined by the following function:

$$\pi_{ti} = R_{ti} - W_{ti} - FC$$

Where R denotes revenues, W stands for wages and FC are the club's fixed costs. Profits in equilibrium are equal to zero, since the primary objective of a professional soccer club is to maximize sports results. On the other hand, surpluses of revenues are all reinvested into improving the quality of the team and, as a consequence, wages are maximized.

Revenues in period t depend on the previous season's final ranking and on relative market size M (which includes revenues from ticketing and merchandising). Considering a linear function for revenues, we have:

$$R_{ti} = \beta rank_{t-1,i} + M_{ti}$$

Wage payments are not strictly limited before the introduction of FFPR. Indeed, they are only subject to a soft budget constraint. Wages depend on external investors' money (I) and on debt-financed budget deficit (D):

$$W_{ti} = R_{ti} + I_{ti} + D_{ti} - FC$$

Once FFP Regulations are in force, the break-even condition requires that:

$$W_{ti} = R_{ti} - FC$$

since "relevant expenditures" are limited to "relevant income".

The passage from the unconstrained wage equation to the constrained version (where the break-even rule acts as a constraint) produces two main effects: players are clearly made worse off by the introduction of the FFPR, since salaries are tied to the level of football revenues; small clubs cannot attract better players through offering higher salaries because the amount of money they can devote to wages is limited by their intrinsically lower revenues. As a result, FFP Regulations imply rent-shifting from players to clubs, and in particular toward richer clubs that are sheltered from being challenged by small clubs.

The idea of the "ossification" of European football leagues is already present in this step of the model.

Sporting success is measured by the final ranking in championships and tournaments. The final ranking is a function of relative wages (ω) and a random effect:

$$rank_{ti} = \alpha \omega_{ti} + z_{ti}$$

Thus, crossing equations on ranking, wages and revenues, the outcome is as follows:

$$rank_{ti} = \alpha \beta rank_{t-1,i} + \alpha m_{ti} + \alpha \phi_{ti} + \alpha \delta_{ti} + z_{ti}$$

with

$$m_{ti} = \frac{M_{ti}}{\sum_i^N M_{ti}}, \phi_{ti} = \frac{I_{ti}}{\sum_i^N I_{ti}}, \delta_{ti} = \frac{D_{ti}}{\sum_i^N D_{ti}}$$

Finally, considering that under FFP rules, wages are tied to season revenues:

$$rank_{ti} = \alpha \beta rank_{t-1,i} + \alpha m_{ti} + z_{ti}$$

From the above equation, it appears evident that current sporting success is simply determined by: market size, the club's ranking and some random effects, unless sports regulations allow for owners to inject external capital or for clubs to run structural budget deficits. Since FFP Regulations go in the opposite direction, the overall effect points towards "ossification".

In the long run:

$$rank_{Ti} = (\alpha \beta)^T rank_{0i} + \alpha \sum_{t=0}^T (\alpha \beta)^t m_{ti} + \sum_{t=0}^T (\alpha \beta)^{T-t} z_{ti}$$

The persistence of the effects of the starting level of success as well as of the size of the market on future success seems to be even protected by the introduction of the BER. The conclusion of the paper comes naturally. UEFA Financial Fair Play regulations should in the long run:

- Enhance European football financial stability;
- Preserve the integrity of the game;
- But adversely affect the balance of competitiveness

FFPR are intrinsically anti-competitive, since they restrain smaller clubs from catching up bigger clubs. This poses serious problems in terms of the ossification of the existent hierarchy in European football, and needs some correction, for the intent of the regulation to work effectively. Following Vöpel and according to the Tinbergen rule, a second instrument would be necessary to flank FFPR in order to take advantages from their pros and to restore the previous - or even building a better - competitive balance. A strong redistribution of revenues or revenue sharing could go in this direction.

Given this line of reasoning, the counterarguments offered by Franck (2014) are essentially two. Firstly there is no real mechanism which systematically allocates payroll injections in a way that small clubs turn out to be more competitive. Normally, what happens is that richest benefactors are attracted from higher probabilities to win. Since bigger clubs, with their extraordinary history of success, are those whose probabilities of winning are higher, a vicious circle is in place. Benefactors are more inclined to invest capitals in top clubs, monies look for monies and, finally, “money comes to money”.

Against this background, FFPR reduce the gap between small and big clubs by forcing all clubs to play within their market potentialities and avoiding top clubs to benefit from conspicuous injections of external capitals coming from the richest owners that they automatically attract. Far from being a negative chimera, FFPR are positive devices to break the “money comes to money” equilibrium and to reinstall fair levels of competition.

Secondly, once incentives for good management are taken into consideration, there is even less room for external money injections as the proper tool for shaking football hierarchies. FFPR are likely to revitalize the importance of management quality and European football can only benefit from this occurrence, since it will surely provide a great source of variance in the hierarchy of football, while at the same time enabling the pursuit of financial stability.

5. Conclusions

When in 2009 UEFA launched its new Financial Fair Play Regulations (FFPR), it wanted to achieve certain specific objectives to achieve:

- to foster the long-term sustainability of European football;
- to ensure the integrity of UEFA club competitions;
- to halt salary and ticket price inflation;
- to preserve competition among football clubs, by limiting excessive spending.

Five years after their introduction, the debate on the economic and financial effects of FFPR is still in a state of flux. The aim of this paper has been to provide a comprehensive review of the economic studies investigating the regulation of European football, in order to provide a systematic overview of the pros and cons of Financial Fair Play Regulations. Given a common starting assumption – that football clubs are special firms for reasons of economics and political economy – all but one of the authors reviewed criticize the logic of FFPR, focusing on the Break-Even Requirement (BER) it introduces, by which relevant expenses have to be matched by relevant revenues. Criticism has fallen into three different categories: i) FFPR are likely to produce inefficiencies in markets for professional players; ii) they are likely to trigger unfair competition in football leagues; iii) they are likely to freeze existing football hierarchies. The paper has analyzed the theoretical and empirical arguments made by each critical contribution and explored the counterarguments that can be made for each case.

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