

## Transfers: should the system be reformed?

### Definition – Stakes

'Player transfers' can have several meanings depending on the disciplinary approach adopted. From a sporting perspective, transfer refers to the movement of a player from one club to another. In contrast to the movement of personnel in the normal business world, the movement of players in professional sport is not free. Several conditions must be met in the sporting sector to ensure that competitive balance is not impaired. From a legal point of view, 'transfer' refers to the renegotiation of an employment contract and the signing of a transfer agreement. The legal security of the contract is at the heart of the negotiation. From an economic point of view, the transfer can be analysed as the determination of the monetary amount necessary for the selling club to release a given player. What is important here is the economic basis for such an amount.

The economic analysis of player transfers cannot, therefore, be carried out independently of the sporting logic and its specificities (competitive balance, sporting calendar, particular regulations), nor of the legal logic and its constraints (competition law, contract law, etc.). It is by taking into account these three dimensions (economic, legal, sporting) that the transfer system must be analysed to understand how it works, its limits and ultimately to propose improvements.

Whichever definition is chosen, a transfer is defined as the authorisation to change clubs issued by the competent sporting authorities. It must be ensured that the system of inter-club mobility thus conceived respects both the interests of the players and those of the clubs and that it does not distort sporting competition. It is in the interest of the players that they should not be regarded as mere commodities or financial assets subject to the laws of market supply and demand. Legal advice is useful in defining and enforcing the employment contract, but also in regulating the investment of a third party in the economic rights of a professional player, or TPO (third-party ownership) because, in return for its investment, this third party can receive its share of the value of the player's possible future transfer. The club's interest must also be preserved insofar as it has taken risks in investing in a player's talent and is entitled to claim its fair return on investment before authorising the transfer. Finally, the fairness of the competition must not be distorted, since the uncertainty of the result is the very basis of the value of the sporting spectacle. It is therefore important to avoid too great a concentration of sporting talent in the richest clubs.

The central question that arises is how effective such a transfer system is and whether it could be dispensed with. It must be accepted that in most economic sectors, such a transfer system does not exist when an employee changes employer. So how can we analyse transfer payments in the professional football sector? A history of the transfer system helps to understand its origins and its development over time.

## **History**

The history of transfers cannot be separated from the history of professionalism. If we take the example of football in France at the end of the 19th century, two phenomena developed: sham amateurism also known as 'shamateurism' and player poaching. In the first case, amateur players began to threaten clubs that they would no longer play if they did not receive monetary compensation for their travel expenses, medical expenses or loss of earnings compared to their official employment. The players blackmailed the clubs by monetising their talent, and gradually the negotiation process became focused on the issue of transfers at the end of the season. The players then had total freedom to transfer to another club, which led to bargaining and player poaching by the clubs, that practically carried out 'secret operations' to buy players. The turning point came in 1925 when the transfer of a player was made subject to the formal agreement of the leaving club. This rule, which was intended to stop player poaching, had perverse effects, particularly through the existence of underground financial transactions to obtain the agreement of the departing club. The transfer system was born. However, after 1945 and until the 1970s, transfers virtually disappeared due to the introduction of lifetime employment. It was not until the 1980s that they were revived and expanded then exploded, in particular, after the Bosman ruling of 1995.

## **Value**

How can we determine the amount of a player's transfer based on his value? It should be remembered that economic theory has always encountered difficulties in establishing the value of a painter or a painting. The same difficulties are encountered when calculating the value of a football player. Several types of approaches have been developed based on determining the cost of production, the cost of training or the talent of the player. This always comes down to knowing, for the purchaser, whether or not the price paid for the transfer is justified by its use value, i.e., by what it can bring in. It is also at this level that there may be a discrepancy between the price and the value of the transfer insofar as the transfer market is far from perfect with numerous externalities (information asymmetry, power,

etc.). The transfer market is thus characterised by speculative bubbles that endanger both the competitive balance of the leagues and their financial stability. This is why the transfer market must be regulated. Given all the externalities and various abuses that characterise it, allowing it to operate freely leads to a sub-optimal balance.

## **Regulation**

The first major reform of the transfer system took place in 2001, following a long and difficult dialogue between the football authorities (FIFA, UEFA, professional leagues), the European Commission and players' representatives (FIFPro). The principles of this agreement, which have been incorporated into FIFA regulations, mainly concern the protection of minors, remuneration for training, the stability of contracts, solidarity between professional and amateur clubs and dispute management. This reform aimed to guarantee the free movement of players within acceptable limits, the stability of teams and the competitive balance of leagues. Such a difficult compromise explains the ongoing negotiations between the various parties involved (clubs, unions, leagues, players, agents) to try to change the transfer system. The question that remains is: is such a system efficient?

Economic analyses show that the transfer system is imperfect. It permits the logic of competitive imbalance to continue: the richest clubs buy more sporting talent, have better sporting results and therefore more income, which in turn allows them to buy more sporting talent. We are thus heading towards a quasi-closed league (de facto) of the richest clubs at the European level. The sale of players would also be at the origin of a speculative financial bubble that threatens all the leagues, and even if progress has been made, the regulation of the transfer market is not yet sufficiently effective. This is why the professional players' union (FIFPro) advocates freedom of movement for players and the payment of salaries owed to the selling club by the buying club. It also recommends that the status of players' agents is reviewed and that their remuneration be paid by the players rather than by the clubs.

It is therefore clear that behind the reform of the transfer system, the entire economic model of professional football deserves to be reviewed. Profound reforms are certainly to be envisaged: regulation of the labour market through finance (financial fair play, club licence, salary cap, etc.); improvement of the quality of information (transparency, status of players' agents); regulation of the allocation of sporting talent (protection of development clubs, quota of home-grown players) and the improvement of solidarity between profes-

sional and amateur sport. The reform of the transfer system is inseparable from the global reform of the sporting spectacle sector and from the reform of the economic system as a whole.

**Further information:**

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