

# **THE ECONOMIC DEVELOPMENT OF THE AUSTRALIAN FOOTBALL LEAGUE**

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## **ABSTRACT**

This paper begins with a brief review of the evolution of the unique brand of Australian football and the development of a fully-professional and national Australian Football League (AFL) comprising 16 clubs from the Victorian Football League (VFL) formed in 1897.

Analysis of clubs' finances and stated objectives suggest that AFL clubs are win-maximisers (subject to breaking even financially) rather than profit maximisers. The win-maximising objective stems from the nature of club ownership. Of the 16 clubs, ten are owned by their members, one is shareholder-owned, four are owned by their respective state football Commissions and one licence is held by the AFL. The objectives of the league and the changes in its governance are also discussed.

The history of labour market devices and revenue sharing rules the VFL/AFL has used to try to increase competitive balance is outlined. Six different periods between 1897 and 2003 are identified and the different levels of competitive balance are calculated for each year and then matched against the devices and rules used in each period. It is suggested that the high levels of competitive balance achieved in the VFL/AFL in the most

recent period could well be the result of the introduction of both a national player draft and team salary cap.

**KEY WORDS:** Australian Football League (AFL); economic development; competitive balance; club ownership; club objectives; league objectives; league governance; player draft; salary cap.

**JEL CLASSIFICATION:** L83

## **EVOLUTION OF THE GAME OF AUSTRALIAN FOOTBALL**

Not surprisingly, the game of Australian football, alias Australian Rules, is essentially an Australian invention according to esteemed Australian historian Geoffrey Blainey (2003, p.ix):

It arose in the late 1850s when the various kinds of English football were still in flux and, at the beginning, it borrowed extensively from these games and especially from Rugby. Almost at once it was a distinctive game. So quickly did Australian football move in its own direction under its own momentum, and so often did it devise or adapt new rules and tactics that, within twenty years, it was far

removed from Rugby and soccer and was still changing rapidly....the game probably has changed even more in the last hundred years.

Blainey (2003, pp.xi-xii) claims there is little or no direct evidence for the belief that Australian football was simply an offshoot of Gaelic (Irish) football, nor for the theory that Australian football is an old Aboriginal game. Blainey (2003, p.2) claims that Australian football is one of the oldest codes of football played in the world, older than American football (gridiron), Rugby League, Gaelic (Irish) football, and Association football (soccer), but younger than Rugby. Blainey (2003, pp.2-3) points out that the formation of the first senior Australian football clubs Melbourne (1858) and Geelong (1859) occurred before the formation of the first soccer clubs in England such as Notts County (1862) and Stoke City (1863).

The game has changed a lot over the years. The distinctive features of modern Australian football include teams of 18 players (plus four interchange players) playing with an oval-shaped ball on an oval-shaped playing surface (135-185m in length and 110-155m in width), but with no offside rule. A match is played over four quarters each of 20 minutes. A goal worth 6 points is scored by a team member kicking the ball between the two goal posts, and a behind worth 1 point is scored either when the ball

is kicked between the goal posts and the behind posts (the two of which are positioned on the outer side of each of the goal posts), or 'rushed' by any player between the behind posts. Players are allowed to tackle each other between the shoulder and the knee, to run whilst bouncing the ball and to catch or 'mark' the ball, the latter allowing a player to take a 'free' kick. However, throwing the ball is not permitted, instead it must be either kicked or 'handballed' or 'handpassed' (punched with a clenched fist).

### **DEVELOPMENT OF THE NATIONAL LEAGUE: VFL TO AFL**

The Victorian Football Association (VFA) was formed in Melbourne in 1877. In 1896, eight of the original VFA clubs broke away to form the Victorian Football League (VFL) and the first season of competition was played in 1897. Over time, the number of VFL clubs in Melbourne grew and in the 1980s and 1990s clubs from cities outside Victoria were admitted. This necessitated an official name change at the end of 1989 to reflect the expansion of the former Victorian-based competition into a national competition. From 1990, the competition has been known as the Australian Football League (AFL).

The VFL began with eight clubs: Carlton; Collingwood; Essendon; Fitzroy; Geelong; Melbourne; St Kilda; and South Melbourne. Seven of

these clubs were based in the Melbourne metropolitan area with Geelong located about 75 kilometres south-west of Melbourne. Richmond and University (of Melbourne) were admitted in 1908, but University disbanded before the start of the 1915 season. During WWI the number of clubs fell to four in 1916, increased to six in 1917, eight in 1918, and nine in 1919. In 1925, Footscray, Hawthorn, and North Melbourne joined to make a twelve-team competition that continued until 1987, except for Geelong's withdrawal during WWII in 1942 and 1943. South Melbourne moved to Sydney for the 1982 season and became Sydney (Swans) in 1983. Though strong state-based football competitions had long existed in Adelaide (the South Australian National Football League: SANFL) and Perth (the West Australian Football League; WAFL), it was the VFL that expanded nationally with the inclusion of the Brisbane Bears and the Perth-based West Coast (Eagles) in 1987, Adelaide in 1991, and Fremantle in 1995, making a league of sixteen teams. In 1997 Port Adelaide joined the AFL, while the formation of the Brisbane Lions as a merger of the Brisbane Bears and Fitzroy kept the number of clubs at sixteen. In addition, two Victorian clubs have changed trading names in an attempt to become more attractive to (national) spectators and corporate sponsors. Footscray began trading as

the Western Bulldogs in 1997 and in 1999 North Melbourne became the Kangaroos.

## **CLUB OBJECTIVES**

The overriding goal of VFL/AFL clubs is winning and team success. In analysing the objectives of VFL clubs in the early 1970s, Dabscheck (1975, p.178) found that club officials ‘... major objective is to see their football team win as many premierships as possible.’ In the mid 1980s Stewart (1984, p.7) concurs, arguing that ‘profits are seen as a secondary goal: a premiership is ranked more highly than an operating surplus.’ Both authors also found that clubs were prepared to go into debt to achieve playing success.

More recently, Shilbury (1994) in a study of the strategic planning practices of AFL clubs finds that financial trading performance and on-field performance are the two most important aspects of football club management. Shilbury (1994, p.257) describes as this as 'the utility maximising effect of voluntary administration by the president and board of directors'.

## **CLUB OWNERSHIP**

The nature of club ownership in the AFL varies, and in general is vastly different from the privately-owned franchises/teams typical of the US and Europe or the publicly (shareholder)-owned clubs often found in Europe. Most clubs in the history of the VFL/AFL have been and are member-owned (now typically companies ‘limited by guarantee’) with club members normally electing the Board of Directors, who appoint professional managers to run the club. Until 1987, all Victorian-based clubs were member-owned. North Melbourne (the Kangaroos) became shareholder-owned in 1987. From the mid 1980s to the early 1990s, both Sydney and Brisbane each went through a short period of private ownership. Brisbane has now reverted to a traditional member-owned club, whilst the Sydney licence is AFL-owned with its Board approved by the AFL. The two clubs in Adelaide, South Australia (Adelaide and Port Adelaide), and the two clubs in Perth, Western Australia (West Coast and Fremantle), are owned by their respective state football Commissions which also manage football in those two states, including the SANFL and WAFL competitions.

### ***Member Ownership***

Member-owned clubs have traditionally been administered by a Board of Directors elected by 'financially paid-up' club members. The aim of these club members has not been to achieve a financial return on their membership, but to assist with and to enjoy the playing success of their club. In other words, the clubs have not been profit-maximisers but win-maximisers subject to a budget constraint of breaking-even financially. During the 1990s member-owned clubs (and their directors in particular) seemed to become much more conscious of the need for financial viability, particularly in an environment where these clubs were fearful that the league would reduce the number of clubs in Melbourne by either merger or relocation.

### ***Shareholder Ownership***

According to Nadel (1998), North Melbourne (one of the financially-weaker VFL clubs) issued \$3m worth of shares in 1987 on the second board of the Stock Exchange, an exercise viewed by many as a fund-raising exercise. The VFL's licence rules and North's articles of incorporation limited individual shareholdings to 10% and voting rights to 5%, whilst the

North Melbourne constitution guaranteed shareholders, but not members, the right to vote on proposed mergers.<sup>1</sup>

### ***State Football Commission Ownership***

The West Australian Football Commission (WAFC), formed in 1989 to oversee football in Western Australia, effectively owns the West Coast and Fremantle licences, the former through the company ‘Indian Pacific’ which is wholly-owned by the WAFC. The Board of Directors of ‘Indian Pacific’ and the Board of Management of West Coast are in effect appointed by the WAFC. Until December 2003, Fremantle’s Board of Directors was appointed by the WAFC, but an amendment to the constitution now allows Fremantle members to elect two members to the Board of Directors.<sup>2</sup> Until 1999, West Coast and Fremantle returned 75 per cent of any profits to the WAFC. Since 2000 the marginal profit tax rate has been 80% up to \$3m, 70% from \$3m-\$4m and 50% above \$4m.<sup>3</sup> Fremantle made losses between 2000 and 2002 and has negotiated a suspension of the profit tax for 2003 and 2004 in order to be debt free by 2005.<sup>4</sup>

Adelaide and Port Adelaide have sub-licence agreements with the South Australian National Football League (SANFL) which appoints the

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<sup>1</sup> St Kilda began issuing unlisted shares in 1987 which gave shareholders extra voting power compared with members. See Nadel (1998, p.232).

<sup>2</sup> Media Release, Fremantle FC, ‘Member Elected Board Representatives’, 15 December, 2003.

<sup>3</sup> Richard Godfrey, Commercial Manager, West Coast Eagles FC, 17 December, 2003.

South Australian National Football League Commission (SANFLC) to administer football in South Australia. The Board of Directors of the Adelaide FC are all approved by the SANFLC, though in the last few years Adelaide members have been able to vote for up to three candidates names to be put forward for consideration by the Commission, whereas half of the directors of Port Adelaide have been member-elected since the club entered the AFL in 1997. Until recently, both Adelaide and Port Adelaide have each made a royalty payment of 80 per cent of any profits to the SANFLC. But from 2003 Adelaide has negotiated royalty payments of \$500,000 (2003), \$475,000 (2004) and \$450,000 (2005), whilst Port Adelaide has negotiated a royalty payment of \$225,000 in 2002 rising to \$320,000 by 2006.<sup>5</sup>

### *Experiments with Private Ownership*

The VFL/AFL's experiment of private ownership with the expansion teams in the northern states of New South Wales and Queensland proved to be brief and financially unsuccessful.<sup>6</sup>

A private syndicate headed by businessman Christopher Skase won the battle for the VFL/AFL licence for the Brisbane Bears in October 1986, but quickly ran into debt as did a subsequent private owner and

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<sup>4</sup> Gary Walton, Chief Financial Officer, Fremantle FC, 18 December 2003.

<sup>5</sup> Grant Rutherford, Finance Manager, Adelaide Football Club, 16 and 22 December 2003 and Brian Cunningham, CEO, Port Adelaide FC Ltd, 19 December 2003.

<sup>6</sup> For more detail see Hutchinson and Ross (1998) and Nadel (1998).

businessman Reuben Pelerman before the licence was transferred to the Brisbane Bears, who put in place a traditional membership-based structure in November/December 1991, with the members nominating and electing the Board of Directors.<sup>7</sup> The Brisbane Bears became the Brisbane Lions from 1997 after a merger with Fitzroy in July 1996.

In response to growing financial pressures South Melbourne played 11 games in Sydney in 1982. In May 1983 the VFL agreed that it would subsidise the club and appointed a board to run the club whose name was changed to the Sydney Swans. At the end of July 1985, the VFL sold the Sydney Swans to a group led by Dr Geoffrey Edelsten. In May 1988, the Sydney club licence was sold back to the VFL until December 1988, when the VFL announced that a new private consortium which included media personality Mike Willesee had taken over for a period of five years. This group proved unsuccessful in turning the club's finances and on-field performance around and in May 1993 the AFL bought back the licence, and announced a restructuring which included the return to a traditional membership-based club.

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<sup>7</sup> Graeme Downie, Chairman, Brisbane Lions, 18 December, 2003.

### *AFL Ownership*

Since 1994, a Board of Directors approved by the AFL has managed the Sydney Swans whose licence is technically 'owned' by the AFL, but which might be thought of as being effectively 'owned' by its non-voting members. However, there are plans for two member-elected directors to be in place by 2005.<sup>8</sup>

### *Club Membership and Financials*

Average annual club membership in the AFL was 27,821 over the three-year period 2000-2002, with Adelaide having the highest (43,843) and St Kilda the lowest (19,266). There were 463,171 club members in 2003 bringing average club membership up to 28,948 with the highest being Adelaide (47,097) and the lowest Melbourne (20,555).<sup>9</sup>

Over the three-year period 2000-2002, the largest average annual profit of any club was Essendon (A\$1.425m) whilst the largest average annual loss of any club was Fremantle (A\$1.610m). On average over the three years 2000-2002, the clubs approximately 'broke even' financially with an average annual loss of just A\$0.102m.<sup>10</sup>

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<sup>8</sup> Richard Colless, Chairman, Sydney Swans FC, 19 December, 2003.

<sup>9</sup> See AFL (2002) and AFL (2003d).

<sup>10</sup> See ICAA (2003).

To summarise, the research on club objectives, the nature of the ownership, and the analysis of clubs' financials all point to win maximisation (subject to breaking-even financially) being the objective function of AFL clubs.

## **LEAGUE OBJECTIVES AND GOVERNANCE**

In its role as 'manager of the national competition and keeper of the code' the AFL (2002, p.4) currently has four objectives which it sees as fundamental to the game's long-term future so as to ensure the AFL retains its position as a leader in Australian sport. The AFL's four objectives are: to effectively manage the national competition to ensure it is the most successful national elite sports competition for the benefit of our stakeholders – our AFL clubs, the players and the public; to promote public interest in the game by building the strongest consumer brand in Australian sport; to promote high levels of player participation in well-managed programs at all levels of community football to ensure Australian Football is the pre-eminent national football code; and to maximise the economic benefits of Australian Football to our member clubs, our players, the supporters, the football fraternity and the community at large.

The development of the national league was made easier by significant changes to the governance of the league. Both Dabscheck (1973) and Stewart (1984) discuss the organisational structure of the VFL during the 1970s and early 1980s. At this time, the League was run by a Board of Directors, comprised of one director from each of the 12 clubs. However, with clubs intent on pursuing policies in their own self interest, the so-called 'delegate' system seemed incapable of making decisions to solve both the competitive and financial difficulties of the 1980s.

In 1983, the VFL's player rules were declared void as a common law restraint of trade (Dabscheck, 1984). In addition, in the twenty years of football between 1967 and 1986, the premiership was shared between only five of the twelve VFL clubs. Sixteen of these twenty premierships were shared between just three clubs; Carlton won six premierships in this period, and Hawthorn and Richmond five each. By this simple measure alone, it was evident that the VFL competition over this period was decidedly uneven. Moreover, by the middle of the 1980s the VFL was in serious financial trouble. Performance in terms of the VFL's objectives was poor. Attendances and club memberships were dropping, player payments had increased dramatically, half the VFL clubs were technically bankrupt

and the competition was incurring heavy losses, and a group of the stronger VFL clubs were planning a breakaway to form a national competition.<sup>11</sup>

In December 1985, the VFL Board of Directors resolved to appoint a Commission with specific powers to administer the competition, but with the Board (and therefore the clubs) still exercising ultimate control. In July 1993, the transformation of the AFL's corporate governance structure was completed when the Board of Directors approved the recommendations of the *Crawford Report*. The *Crawford Report* recommended that all powers to run the AFL competition be transferred to the AFL Commission comprised of up to eight commissioners, a Chairman and a Chief Executive Officer (but with limited powers with respect to the admission, re-location and merger of clubs and also limited powers with respect to the expulsion of a club) and the AFL Board of Directors be abolished.<sup>12</sup>

## **DEVICES USED TO IMPROVE COMPETITIVE BALANCE**

From the formation of the VFL in 1897, Booth (2000) identifies six different periods comprising various combinations of different labour market devices and revenue sharing rules used to improve competitive

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<sup>11</sup> See AFL (1994) and Linnell (1995).

<sup>12</sup> See AFL (2003a).

balance. The most recent period Booth identifies (1985-2003), roughly coincides with the term of the Commission, during which the AFL has pursued a policy of 'playing and financial equalisation' so as to improve competitive balance. A team salary cap and national player draft have been the major devices used to influence the distribution of player talent, whilst revenue sharing has been used to lessen differences in clubs' revenues and hence the ability of clubs to recruit and pay players.

Period 1 (1897-1914) was one of strong competition for new players, described as a period of 'free agency'. Officially the VFL was an 'amateur' competition until 1911, though there was very strong suspicion of 'under-the-table' payments being made. Transfer rules applied to current players, but uncertainty remains as to how effectively these transfer rules were enforced and whether 'signing-on' fees and/or transfer fees were common.

Period 2 (1915-1929) was one where each club was allocated a geographical zone of metropolitan Melbourne from which players could be recruited. However there was keen competition between VFL clubs for country, interstate and VFA players. The period ended with the introduction of the Coulter Law.

Period 3 (1930-1944) was one of metropolitan zoning, with free agency for country and interstate players. Transfer fees and signing-on fees,

though illegal, were not uncommon for country and interstate recruits. Employment was also a strong inducement. The Coulter Law, a uniform maximum imposed on each individual player's wage, was imposed in 1930. Despite this maximum wage being adjusted through the period, it became much more difficult to enforce with the passage of time.

Period 4 (1945-1967) begins with the introduction of what the AFL describes as a 'modified-form of gate sharing' in 1945. Television coverage began in 1957, the income from which was shared equally between the clubs. Metropolitan zoning and the Coulter Law remained the major labour market devices in use.

Period 5 (1968-1984) included the geographical zoning of country Victorian (Victorian Country Football League: VCFL) players to complement the metropolitan zoning system, a transfer fee system and various schemes to control player payments. Country zoning was introduced for the 1968 season. In 1970, transfer fees, signing-on fees and contracts were allowed for each club's two permissible interstate recruits. At the end of 1971, transfer payments were allowed for exchanges of players between VFL clubs. Player contracts became increasingly common and transfer fees were prevalent into the early 1980s. An interstate player draft was introduced in time for the 1982 season. Concern was raised over the

legal validity of the VFL's zoning, transfer and player payment rules, which culminated in the courts declaring the regulations an unreasonable restraint of trade in the Foschini case in 1983.<sup>13</sup> To complement 50-50 gate-revenue sharing, in 1981 an equalisation levy was charged against all cash paying spectators, paid into an equalisation fund and then redistributed equally amongst all clubs. From 1982, a contribution from each adult club membership ticket was also made to the VFL Club Membership ticket pool.

Period 6 (1985-2003) began with the introduction of the team salary cap from 1985. The appointment of an 'independent' VFL Commission in 1984, which replaced the old VFL Board of Directors comprised of a delegate from each of the clubs, heralded a new policy direction. Zoning was phased out during this period with country zoning ending in 1986 and metropolitan zoning in 1991. The first national player draft was held late in 1986, in time for the 1987 season, with drafted players initially being 'bound' for three years, later reduced to two. A pre-season draft (for delisted, or listed but uncontracted players) began in 1989. The sale of player contracts was banned and apart from a mid-season draft from 1990-1993, players and draft selections could only be traded between clubs during specified times during the off-season. Senior player lists (rosters)

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<sup>13</sup> Unreported judgment, Supreme Court of Victoria, Crockett J, April 15, 1983.

were also introduced at the time of the player draft. A feature of the draft/salary cap system was the inability of a club to draft a player unless it could fit his anticipated salary under the team salary cap. In 1993 special assistance draft concessions were given to the three bottom teams with competitive difficulties. A minimum wage was introduced in 1994 as part of the first of a series of collective bargaining agreements (CBAs) between the AFL and the Australian Football League Players' Association (AFLPA). Recruiting concessions were given to new clubs (Brisbane, West Coast, Adelaide, Fremantle and Port Adelaide) to help them form their player lists.<sup>14</sup>

In 1997, the 'rookie draft' was introduced allowing each club to draft up to six 18-23 year olds. Rookies could not play senior football, but could be upgraded to the senior list when another player was put on the long-term injury list, when a player was delisted or at the end of the season when player lists are lodged prior to the national draft. The 1993 national draft special assistance rules were amended in 1998, giving one priority selection prior to Round 1 of the national draft to any team that won less than 25% (five or fewer) of its matches in the 22-round season.

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<sup>14</sup> For more detail on the period 1897-1996 see Booth (1997).

Beginning in 1999, the team salary cap was replaced by a total player payments cap (TPPC) which included injury payments and payments for pre-season matches and finals. Moreover, the equivalent of a minimum team salary was introduced requiring a club to spend at least 95% of the total player payments cap on player payments. Genuine marketing and promotional activity was excluded from the new payments cap. The TPPC was strongly enforced with Essendon and Melbourne in 1999, Fremantle in 2001 and Carlton in 2002 incurring large fines and the loss of national draft selections following breaches of the cap. Season 1999 was the first under the CBA for seasons 1999-2003. New minimum base payments (for 1st, 2nd and 3rd round draft selections) and new senior match payments were negotiated. A veterans' (over 30 years old) list was also introduced as part of the senior list, with only 50% of a veteran's salary included in the TPPC.

From 2000, 50-50 gate revenue sharing (after deduction of match costs) was abolished, in favour of the home team keeping the net gate. Members, reserved seat and corporate box income is not shared so teams playing in small stadia often had little room for a cash-paying crowd and after deduction of match costs provided a poor return to the visitors. Clubs now have more incentive to move home games to larger stadia with larger cash crowds. League-revenue sharing of key income streams from national

broadcast rights (there is no local TV revenue), corporate sponsorship and finals remains. The equalisation levy (a levy on all match goers paid into a central fund and distributed equally amongst the clubs) and the ‘blockbuster levy’ (a levy on ‘blockbuster games’ between large-drawing clubs scheduled twice each season so as to maximise attendance) of A\$25,000 were retained and adjusted for ‘football’ inflation.<sup>15</sup>

To support the 16-team competition, a Special Assistance Fund (subject to various terms and conditions) to assist clubs in difficulty was announced in November 2001, with the Western Bulldogs receiving \$1m in both 2002 and 2003 and the Kangaroos \$1m in 2003.

After broadcasting football for 45 years since 1957 (except for ABC TV in 1987), a new consortium of the Nine (free-to-air), Ten (free-to-air) and Foxtel (pay) networks secured the national TV rights ahead of the Seven network for 2002-2006 for an estimated \$500m.<sup>16</sup> The major change in the players’ labour market for 2002 was the reduction of the minimum team salary to 92.5% of the TPP cap.

A Competitive Balance Fund providing up to \$5m per club over a three-year period 2004-2006 (to coincide with the end of the current

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<sup>15</sup> For more detail on the period 1997-2000 see Booth (2000)

<sup>16</sup> Nearly all broadcasts on free-to-air are delayed in the home market, except on pay-TV. See Macdonald and Borland (2004, pp.310-311). See Borland and Macdonald (2003) and Macdonald (2005 forthcoming)

national TV broadcast agreement) was agreed to in 2003. Both the Bulldogs and the Kangaroos had each received \$1m late in 2003 for the 2004 football financial year (November-October).<sup>17</sup> The eligibility requirement for listing a player under the father-son rule was increased in 2003 to 100 VFL/AFL games (with interstate equivalents) after being 50 for around a decade, and 20 even earlier.<sup>18</sup> A new CBA was agreed to for the period 2004-2008 which features a moderate 3% growth in TPP in both 2004 and 2005, no growth in 2006 and to be negotiated for 2007 and 2008. Minimum senior list sizes come into effect from 2004, 37 in 2004 and 38 in 2005 and 2006 while the maximum senior list (which can now include any number of veterans) remains at 40. The total player list including (up to 6) rookies cannot exceed 44.<sup>19</sup> During 2003, the AFL announced the future phasing out of the 15% team salary cap loading to Sydney (for higher cost of living) and the 10% loading to Brisbane (to help retain players in the non-traditional Australian football state)<sup>20</sup> and their replacement with more general allowances depending on a club's number of interstate players.<sup>21</sup>

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for a comprehensive discussion of many aspects of the operation of professional team sports leagues in Australia since 1970, including the VFL/AFL.

<sup>17</sup> Stevens (2003).

<sup>18</sup> AFL (2003b).

<sup>19</sup> AFL (2003b).

<sup>20</sup> AAP (2003b).

<sup>21</sup> AAP (2003a)

## COMPETITIVE BALANCE IN THE AFL

Table 1 and Figure 1 show the competitive balance ratios (actual SD/idealised SD) for the VFL/AFL based on the teams' win percent data for the home and away seasons between 1897 and 2003. The lower is this measure of the closeness of competition in a season, the more competitive balance there is in the league.<sup>23</sup> Unevenness of competition peaked in the early 1980s with 1981 and 1982 having the highest competitive balance ratios ever. Given the prevalence of the payment of transfer fees and interstate recruiting at this time, the VFL/AFL was concerned not only about an uneven competition but also the financial health of some of the clubs. This led the Commission to re-emphasize 'financial equalisation' between the clubs and to introduce the team salary cap and then the national player draft to address these problems.

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<sup>23</sup> Following the approach suggested by Noll (1988) and first applied by Scully (1989). 'Competitive balance ratios' have been used in the US by Quirk and Fort (1992), Vrooman (1995), Berri (2001) and others to compare the closeness of competition within seasons. These ratios compare the actual performance of the league, with the performance the league would have achieved if all teams were of equal playing strength by measuring the dispersion of teams' win percents over a season relative to the idealised dispersion when all teams are assumed to have equal playing strengths. The less is the deviation of the actual league performance from the ideal league, the greater is the degree of competitive balance. For more detail see Booth (2004).

Table 2 shows the average ratios for the six different identified periods. The average competitive balance ratio over the whole history of the VFL/AFL (1897-2003) is 1.8286. The most uneven period is free agency in period 1 (1897-1914), which has the highest ratio of 1.9520. Period 6 (1985-2003) with a player draft and team salary cap is the most even (1.7076).

In conclusion, these competitive balance ratios lend strong support to the view that in the VFL/AFL, a league comprised of win-maximising clubs, a player draft and the team salary cap have all played their part in helping to achieve higher levels of competitive balance. Moreover, during period 5 (1968-1984), the 17 premierships were shared between only 5 of the twelve clubs: Carlton won the flag 6 times, Richmond and Hawthorn won 4 each; North Melbourne 2 and Essendon won the last in 1984. In period 6 (1985-2003) the 19 premierships were shared between 8 of the clubs which grew in number to 14 in 1987; 15 in 1991 and to 16 between 1995 and 2003. Hawthorn won 4 flags; the Brisbane Lions and Essendon 3; Adelaide, Carlton, North Melbourne/Kangaroos and West Coast 2 each and Collingwood 1. However, three successive premierships to Brisbane in 2001-2003 increased the concern of many clubs with Brisbane's 10% TPPC

loading, even though in none of these years did Brisbane finish on top of the ladder at the end of the home-and-away season.

## **KEY PERFORMANCE INDICATORS**

Two of the key performance indicators of interest to the AFL are attendance and club membership. In 2003, aggregate attendance for the 176 home and away games was 5.87 million (the 3<sup>rd</sup> highest on record and up from 5.12 million in 1995, the first year of the 16-team competition) and reached 6.35 million including finals (the 4<sup>th</sup> highest on record and up from 5.96 million in 1995). The average home and away match attendance in 2003 was thus over 33,000. Aggregate club membership in 2003 of 463,171 was the largest ever, compared with 261,067 members in 1995.

Television ratings remain very strong with the 2003 AFL Grand Final averaging 3 million viewers nationally (of a population of around 20 million) and peaking at 3.5 million viewers, making it Australia's most watched sports event in 2003, whilst the top two internet sites in 2003 were also AFL-related.<sup>24</sup>

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<sup>24</sup> AFL (2002) and AFL (2003d).

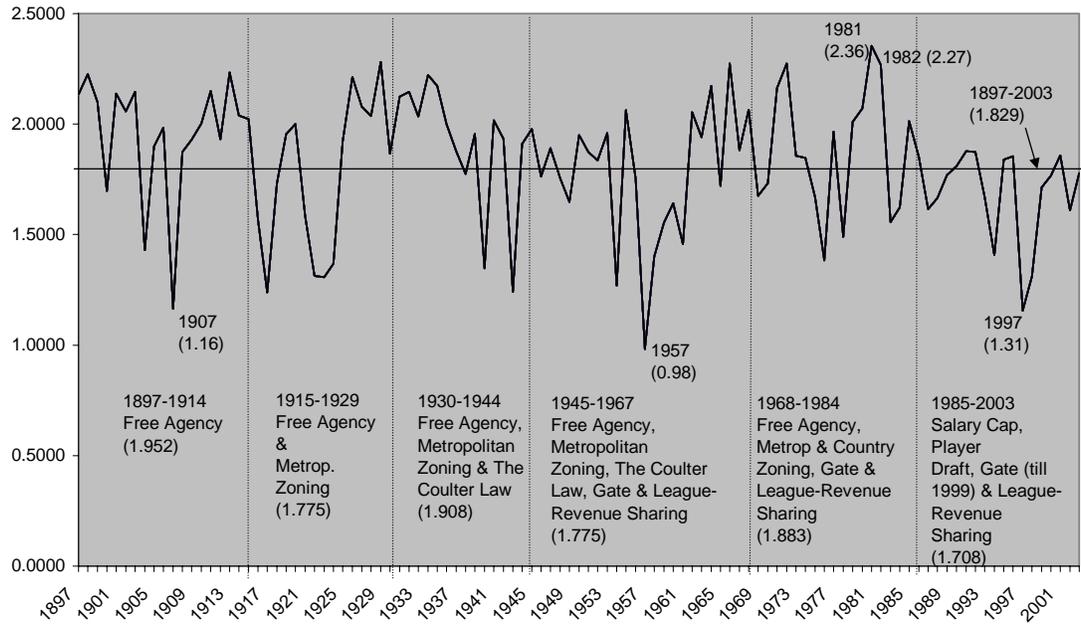
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TABLES AND FIGURES

Figure 1 Competitive Balance Ratios in the VFL/AFL 1897-2003



**Table 1 Competitive Balance Ratios (Actual SD/Idealised SD), VFL/AFL 1897-2003**

<b>Year</b>	<b>Rds</b>	<b>CB Ratio</b>	<b>Year</b>	<b>Rds</b>	<b>CB Ratio</b>	<b>Year</b>	<b>Rds</b>	<b>CB Ratio</b>
1897	14	2.1339	1933	18	2.0344	1969	20	1.6758
1898	17	2.2262	1934	18	2.2215	1970	22	1.7321
1899	17	2.1004	1935	18	2.1731	1971	22	2.1638
1900	17	1.6977	1936	18	2.0000	1972	22	2.2747
1901	17	2.1386	1937	18	1.8782	1973	22	1.8566
1902	17	2.0580	1938	18	1.7743	1974	22	1.8464
1903	17	2.1454	1939	18	1.9555	1975	22	1.6697
1904	17	1.4297	1940	18	1.3472	1976	22	1.3844
1905	17	1.8981	1941	18	2.0184	1977	22	1.9656
1906	17	1.9852	1942	15	1.9343	1978	22	1.4902
1907	17	1.1632	1943	15	1.2411	1979	22	2.0094
1908	18	1.8738	1944	18	1.9100	1980	22	2.0707
1909	18	1.9293	1945	20	1.9770	1981	22	2.3549
1910	18	2.0028	1946	19	1.7622	1982	22	2.2680
1911	18	2.1499	1947	19	1.8918	1983	22	1.5570
1912	18	1.9322	1948	19	1.7547	1984	22	1.6237
1913	18	2.2336	1949	19	1.6490	1985	22	2.0132
1914	18	2.0385	1950	18	1.9508	1986	22	1.8505
1915	16	2.0242	1951	18	1.8733	1987	22	1.6157
1916	12	1.5679	1952	19	1.8353	1988	22	1.6652
1917	15	1.2383	1953	18	1.9603	1989	22	1.7707
1918	14	1.7321	1954	18	1.2693	1990	22	1.8091
1919	16	1.9543	1955	18	2.0638	1991	22	1.8781
1920	16	2.0000	1956	18	1.7533	1992	22	1.8749

1921	16	1.5855	1957	18	0.9813	1993	20	1.6713
1922	16	1.3123	1958	18	1.4011	1994	22	1.4078
1923	16	1.3070	1959	18	1.5546	1995	22	1.8387
1924	16	1.3693	1960	18	1.6415	1996	22	1.8540
1925	17	1.9225	1961	18	1.4561	1997	22	1.1555
1926	18	2.2132	1962	18	2.0548	1998	22	1.3121
1927	18	2.0794	1963	18	1.9413	1999	22	1.7139
1928	18	2.0367	1964	18	2.1731	2000	22	1.7678
1929	18	2.2812	1965	18	1.7213	2001	22	1.8586
1930	18	1.8659	1966	18	2.2751	2002	22	1.6096
1931	18	2.1257	1967	18	1.8810	2003	22	1.7774
1932	18	2.1452	1968	20	2.0656			

**Table 2 Competitive Balance Ratios (Actual SD/Idealised SD) VFL/AFL 1897-2003**

<b>Periods of Labour Market Intervention and Revenue Sharing</b>	<b>Ave CB Ratio</b>
1. (1897-1914) Free Agency	<b>1.9520</b>
2. (1915-1929) Free Agency and Metropolitan Zoning	<b>1.7749</b>
3. (1930-1944) Free Agency, Metropolitan Zoning & the Coulter Law	<b>1.9083</b>
4. (1945-1967) Free Agency, Metropolitan Zoning, The Coulter Law, 'Modified Form' of Gate-Revenue Sharing and League-Revenue Sharing	<b>1.7749</b>
5. (1968-1984) Free Agency, Metropolitan Zoning, Country Zoning, 50-50 Gate-Revenue Sharing and League-Revenue Sharing	<b>1.8829</b>
6. (1985-2003) Team Salary Cap, National Player Draft (from 1987), 50-50 Gate-Revenue Sharing and League-Revenue Sharing. (TPP Cap and Minimum Team Salary from 1999, 50-50 Gate-Revenue Sharing abolished in 2000)	<b>1.7076</b>
<b>(1897-2003) Average</b>	<b>1.8286</b>