CASE 11

Sports League Issues: The Relocation of the Los Angeles Rams to St. Louis (1998)

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INTRODUCTION

Sports leagues raise unique antitrust issues. Although most leagues consist of a collection of separately owned teams, each team is dependent on the others. No team could play even a single game without the cooperation of another team, and the production of a season of sports games, culminating in a championship, requires the joint efforts of all of the teams in the league. As a result, the question arises whether such a league is a single entity or a group of cooperating competitors. Are the league's rules pro-competitive, or do they constitute collusive restraint of trade?

Such issues have often challenged the courts. Their resolution is made no easier by the fact that they often arise in a proceeding brought by one of a league's member teams against the league or against the other members. In such cases, the plaintiff team often asserts that the league's rules are anticompetitive restraints on the freedom of its members. Evidently, there are situations in which the interests of a league as a whole and those of one or more individual members fail to coincide.

Nowhere has this phenomenon been more evident than in cases involving the relocation of team franchises. In the National Football League (NFL, or "the League"), the most famous cases are those stemming from

Portions of this chapter were taken from Fisher et al. (2000).

the move of the Oakland Raiders to Los Angeles and then back again.[1] Partly in response to the 1984 and 1986 cases, the NFL developed a process for making relocation decisions, a process that sometimes involves a relocation fee paid to the League. That process was challenged in 1997 in a case involving the move of the Los Angeles Rams to St. Louis.[2] This case study lays out the economic issues underlying relocation issues in the context of the St. Louis case.

CHRONOLOGY OF EVENTS

In 1988, the NFL Cardinals left St. Louis for Phoenix. This move occurred after the Cardinals' unsuccessful attempt to convince St. Louis to build a new stadium. St Louis's disappointed fans did not believe that Phoenix should be permitted to acquire "their" team.[3]

In response to the departure of the Cardinals, St. Louis passed a referendum granting the city permission to float bonds for the purpose of financing a new convention center. Construction began on the St. Louis Convention and Visitors Center (CVC) in 1993. The CVC facility included a stadium suitable for football. It was hoped that the existence of the new facility would ensure that St. Louis would be selected as one of the two anticipated NFL expansion sites. In late fall 1993, Charlotte and Jacksonville were chosen as NFL expansion sites. Lacking an NFL team, St. Louis contacted the Los Angeles Rams with the hope that it could convince the team to abandon Los Angeles and relocate to St. Louis.

On January 17, 1995, the Rams and St. Louis signed an agreement whereby the Rams agreed to relocate to St. Louis on terms very favorable to the Rams. Approximately two weeks later and in compliance with the NFL's relocation policy, the Rams notified the NFL of its intent to relocate. At a March 15, 1995, special meeting, the League voted to reject the Rams' initial relocation proposal. The Rams' second proposal, which was approved on April 12, 1995, included several modifications, among these a relocation fee.

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[1] *Los Angeles Memorial Coliseum* v. *NFL,* 726 F.2d 1381 (9th Cir., 1984); *Los Angeles Memorial Coliseum Comm'n* v. *NFL,* 791 F.2d 1356 (9th Cir., 1986). These decisions are commonly known as Raiders I and Raiders II. See also *Oakland Raiders* v. *National Football League,* Los Angeles Super. Ct., No. BC 206388 (May 26, 2001).

[2] *St Louis Convention & Visitors Commission* v. *National Football League, et al.,* 46 F. Supp. 2d 1058 (Eastern District of Missouri, 1997), *aff'd,* 154 F.3d 851 (8th Cir. 1998). Franklin Fisher, supported by Charles River Associates, provided extensive expert testimony for the NFL. This paper is based on that testimony.

[3] Indeed, as early as 1985, in response to the Raiders move from Oakland to Los Angeles, Senator Thomas Eagleton (later a trial witness for the St. Louis CVC) sponsored a bill (S. 259, 99th Cong., 1985), the intent of which was "to protect the public interest in stable relationships among communities, professional sports teams and leagues." See http://thomas.loc.gov/cgibin/bdquery/D?d099:4:./temp/~bd9Jvq:|/bss/d099query.html|.

The Rams moved to St. Louis and began playing the 1995–1996 season in the St. Louis CVC; their record was a disappointing seven wins and nine losses.[4] Subsequently, despite having succeeded in luring the Rams to St. Louis, the St. Louis CVC filed a $130 million lawsuit against the NFL.[5] Had the CVC won its claim, damages would have been trebled. Allegations included a Sherman Act Section 1 conspiracy claim, a Section 2 monopolization claim, and a tortious interference claim. With respect to the conspiracy claim, CVC alleged that the NFL Guidelines and Relocation Policies were illegal. According to the CVC, these guidelines and policies constituted a collusive action among twenty-nine separate firms (all of the NFL teams in the League at the time that the Rams relocated, other than the Rams).[6]

In its monopoly claim, the CVC alleged that the NFL was a monopsonist in a "market for professional football stadiums" and that the NFL had used its power to extract illegal profits from the St. Louis CVC.[7] In its tortious interference claim, the CVC alleged that the NFL used wrongful action to deny it a business advantage in dealing with the League's thirty teams.[8]

These claims placed several economic issues before the court. One issue was whether, for the purposes of determining the legality of the NFL's relocation rules and regulations, the NFL should be viewed as a single entity, a joint venture, or as thirty separate competing firms. With respect to this particular issue, although the plaintiff and the defendants jointly stipulated that the NFL was a joint venture (and thus should be judged by a rule of reason standard), the plaintiff still attempted to argue that the teams should be thought of as thirty separate, competing firms.[9] It alleged that these teams had joined together in an illegal cartel and that through this cartel they had established relocation rules and regulations. According to the plaintiff, these rules and regulations constituted an output restriction that the court should find illegal, per se. In fact, as the trial judge stated, the *Raiders I* court had previously addressed this question and found that the relocation rules and regulations were not illegal per se.[10] Rather, the *Raiders I* decision had found that relocations should be judged under a rule of reason standard.[11]

A second economic issue was whether or not the NFL had monopoly power in any relevant marketplace. The plaintiff's liability expert defined

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[4]Four years later, the St. Louis Rams went on to win the 1999–2000 Super Bowl.

[5]*St. Louis Convention & Visitors Commission* v. *National Football League,* 46 F. Supp. 2d 1058 (1997).

[6]*St. Louis Convention & Visitors Commission* v. *National Football League,* 154 F.3d 851, 855–57 (1998).

[7]Ibid. at 856.

[8]Ibid.

[9]The NFL also preserved its position that the League was a single entity.

[10]*Los Angeles Memorial Coliseum* v. *NFL,* 726 F.2d 1381 (9th Cir., 1984).

[11]Similarly, Judge Easterbrook stated that the [National Basketball Association] "is sufficiently integrated that its superstation rules may not be condemned without analysis under the full Rule of

two relevant product markets: a "market for professional football"[12] and a "market for professional football stadiums in the US." The defendants asserted that neither alleged market constituted a relevant market for antitrust purposes, since both alleged markets excluded other products that constrained the exercise of any alleged monopoly power.

The final issue before the court was whether the NFL in any way restricted the NFL teams with which the city of St. Louis might speak. This was a factual question, and the court found no evidence that the NFL did this, although the plaintiff alleged that such a restriction was an inevitable effect of the League's relocation rules.[13] Near the close of the case, the judge dismissed the case and directed a verdict in favor of the NFL.[14] That judgment was affirmed by the Eighth Circuit in the fall of 1998.[15]

THE PRODUCT AND EFFICIENT ORGANIZATION OF A SPORTS LEAGUE

Many economists have noted the unique nature of the products produced and sold by leagues such as the NFL, Major League Baseball (MLB), and the National Basketball Association (NBA). Unlike most products sold in the marketplace, there is nothing to sell unless teams and their owners, through the formation of a league, cooperate to establish and enforce the rules of the game, determine the number of teams in the league, and ensure that the product sold in the marketplace has a particular look and feel that is commonly associated with the product.

It is not only economists who recognize the single entity characteristics of professional sports leagues. In the words of noted sports commentator Bob Costas (2000, pp. 42–43):

> [P]roperly understood, [a League] is less like 30 different restaurants and much more like 30 *franchises within a single restaurant chain.* They're

Reason." Judge Easterbrook further noted that for plaintiffs to prevail, they must establish "that the NBA possesses power in a relevant market, and that its exercise of this power has injured consumers." See *Chicago Professional Sports Ltd. Partnership* v. *National Basketball Ass'n,* 95 F.3d 593 (7th Cir., 1996). In the CVC case, had the parties not stipulated that the NFL was a joint venture, the court might have been asked to determine whether, for these purposes, the NFL should be viewed as a single entity. Were the NFL determined to be a single entity, for these purposes, a Section 1 claim would make no sense, as a single firm cannot conspire with itself.

[12]Plaintiff's Complaint alleged only one monopoly market, a market for NFL quality stadiums. As such, it is unclear why plaintiff's expert alleged that both the output market and input market were at issue. Professor Fisher addressed both in order to respond to the allegations of the CVC's expert witness.

[13]*St. Louis Convention & Visitors Commission* v. *National Football League,* 154 F.3d 851, 851–855 (1998).

[14]*St. Louis Convention & Visitors Commission* v. *National Football League,* 46 F. Supp. 2d 1058 (1997).

[15]*St. Louis Convention & Visitors Commission* v. *National Football League,* 154 F.3d, 851 (1998).

> competitive, they all want profits and the prestige of a five-star rating, but they're not trying to put each other out of business. None can survive without the others. Leagues are, in the words of Notre Dame economist Richard Sheehan, a "joint effort," with all franchises needing to cooperate in some measure to generate revenues.

An important ingredient in the success of the league's product is genuine competition on the field of play and the perception by fans that there is such competition. One team alone cannot produce that. If a single team were to scrimmage against itself, fans would perceive it to be an exhibition rather than a true contest. A scrimmage would lack an essential component: genuine competition on the playing field. Even a small number of teams cannot produce the product that is produced by a sports league. That product is a series of games in the context of a league season. The elements of standings, playoffs, and championships are a very large part of what creates fan interest. The importance of statistics to fans is evidenced by the extent to which the news media reports these statistics.

It follows that at least a substantial portion of the economic value of a single NFL franchise is due to its membership in the League and what it derives from its joint participation in the production of the League's product. Even though star players are major assets, their star quality and popularity derive not only from their native abilities but also from their appearance in league games. Still, a basic question at issue in nearly every sports-related lawsuit is precisely what is and is not included in the "substantial portion" of economic value that each franchise derives from membership in the League.

To create and maintain interest in a league's product requires that fans perceive that the seasonal contest is a real one—a contest, so far as possible, among entities that truly compete on the sports field. Teams must be sufficiently independent to ensure that there is no limitation on their incentives to prevail on the field. This is required for the same reason that a league's product cannot be produced by a single team.

League sports thus demand a form of organization in which some local initiative and autonomy is both present and visible. Moreover, there are other, subsidiary benefits from such a form. For example, local knowledge and local contacts are likely to prove desirable in dealing with local authorities and local media. If such subsidiary reasons are all that is involved, a league might organize as a single entity with local profit centers. But the requirement of independent incentives to prevail on the field makes that form of organization generally unappealing, and most leagues have not adopted it. To preserve interest in the league's product, the teams must be seen to act independently in competing for players and coaches and in competing on the field of play. The interests of the team owners in winning must be genuine and made manifest by their actions.

As a result, successful leagues are typically organized with separate

owners of teams and with certain decisions made at the local level. But not all decisions can be made at that level. Here is where the problem of externalities comes in.

DEALING WITH EXTERNALITIES

When a league organizes as a set of formally independent teams, it necessarily faces an incentive problem. The requirement that teams be seen to operate independently must be balanced against the possibility that the incentives to such independent action will lead to results privately profitable for one or more teams but detrimental to the league, and its customers, as a whole. This is an externality problem.

An "externality" occurs when one party's actions result in costs or benefits to others that are *not* reflected in the private profit-and-loss calculus of that party. In the case of professional sports leagues, externalities arise when a particular team fails to take into account the full costs and benefits of its actions to the league as a whole. Were leagues organized as centrally controlled operations, such problems would not exist; in effect, the externalities would be internalized.

Many, if not all, of the regulations that leagues impose on their members can appear restrictive. On the other hand, they can also be regarded as addressing externalities. For example, the player draft, restrictions on player trades, the salary cap, and salary minimum rules can all be seen as ways of dealing with the externalities that would otherwise occur if teams were permitted to compete unencumbered for players. If individual teams had complete autonomy in the hiring of players, richer owners or owners in more profitable cities would have an incentive to buy up the best players. This would be in their own interest, but it could reduce competitive balance and not be in the interest of the league as a whole, whose interests, as we shall see, are aligned with those of consumers. Restrictions on player mobility in the context of a collective bargaining relationship (e.g., the draft and restrictions on player trades) benefit the league as well as the players by helping to assure fans that every team has a chance to be competitive relative to the other teams. A salary cap attempts to ensure that all teams can afford to field competitive teams. A salary minimum prevents teams from selling off their players and taking the cash. Naturally, a salary minimum is also useful in persuading the players to agree to the salary cap and to other restrictions on movements; it guarantees them a certain share of revenues.

In summary, economists would all agree that leagues should be permitted to establish and enforce those rules that benefit consumers by helping the league to produce a better product. The disagreement arises in that economists do not all agree on precisely which rules those are.

PLAINTIFF'S CASE

The plaintiff's case depended on the crucial allegation that the NFL was a cartel comprising many "would-be" competitors who, but for the existence of the NFL, would compete both in the sale of professional football and for the inputs used in producing professional football. The NFL's purpose, according to the plaintiff's expert, was to establish and enforce policies that restricted competition both in the output and input markets. He cited the following factors in support of his conclusions: Each team was independently owned; each team acted independently in its input purchase decisions; and each team had its own "bottom line."[16]

The plaintiff alleged only that the NFL's relocation policies enabled the NFL to become a monopsonist with respect to a particular input used in the production of football: stadiums. The plaintiff's expert, however, did not limit his opinion to this issue alone. Rather, his testimony identified many League activities in which he believed the NFL's behavior was anticompetitive as a seller of NFL football "product" rather than as a purchaser/leaser of a particular input. Thus, in addition to condemning the NFL's rules governing relocation, the plaintiff's expert also condemned the League's negotiations on behalf of its member teams with the national television networks,[17] the League's labor contract with the Players' Association, and the League's determination of the number of its member teams. This extension of the scope of the alleged NFL wrongdoing led to issues that had little or nothing to do with leasing stadiums.

A prime example was the question of the relevant output market in which the NFL competed. In defining that market, the plaintiff's expert sought to determine whether the closest substitutes for NFL football were actually sufficiently close enough substitutes to limit any market power that the NFL might have. His analysis focused on other professional sports and concluded that they were not particularly good substitutes for NFL football.

The plaintiff's expert's conclusion that the products produced by other professional sports were not good substitutes was based on two separate studies that he undertook. In the first, he considered the collection of professional sports teams playing in different communities. If different sports teams produced products that were good substitutes for one another, he asserted, communities should be indifferent as to which particular sports their teams played. For example, among the communities with four professional

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[16]In reality, each team faces many regulations regarding the use of inputs (for example, every team must comply with the conditions of the college draft and is limited in the number of players it may carry on its roster). Moreover, every team's "bottom line" is significantly affected by League-wide revenue sharing.

[17]Specifically permitted by Congress as a result of its passage of the Sports Broadcasting Act.

sports teams, we should observe different combinations of sports played by the communities' teams. One might even expect to see some communities where all four of their teams played the same sport (e.g., all four playing football). That sports teams do not distribute themselves more randomly must, he asserted, imply that the products produced by other professional sports leagues are not good substitutes for the product produced by professional football.[18]

The plaintiff's expert also prepared an econometric study that indicated that NFL ticket prices were not affected by the presence of other sports teams in a community. That analysis sought to explain NFL ticket prices on a team-by-team basis by analyzing the effect of the following variables on ticket prices: population, per capita disposable income, excess seating capacity, dummy variable for the year, the presence or absence of a second NFL team, whether the team had recently relocated, team performance statistics, and the presence of other sports teams. The plaintiff's expert found that, with the exception of the presence of other sports teams, all other variables had a statistically significant effect on a team's ticket prices. On this basis, he concluded that the products produced by other sports teams must not be good substitutes for NFL football.[19]

With respect to the question of the relevant market in which stadiums competed, the plaintiff's expert concluded that the market was extremely narrow. Those seeking investment funds for the building and/or maintaining of NFL stadiums either did not compete for funds with other large-scale community projects or such a question was of little relevance to the inquiry regarding the relevant marketplace. Rather, the relevant input market at issue was the market for professional quality football stadium leases. This conclusion led the plaintiff's expert to identify several of the relocation policies that he considered to be anticompetitive. Included among the policies deemed harmful to consumers were the guidelines governing when a team could relocate, the requirement that at least three-fourths of the NFL teams approve each proposed move, the right of the commissioner to interpret and establish policy, the ability of the League to review and approve stadium leases, and the provision that a relocation fee might be charged to the moving team. The plaintiff's expert asserted that all of these practices restricted competition among NFL teams for stadiums. He concluded that the result was too little investment in NFL stadiums, too few relocations occurring among NFL teams, and too much uncertainty regarding whether a proposed move would take place.

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[18]By extension, this argument would suggest that if McDonald's and Burger King are good substitutes, we should observe some cities with only McDonald's restaurants and no Burger King restaurants.

[19]However, the regression results also indicated that for those communities with two NFL teams present, one team's ticket prices did not affect the other team's ticket prices, suggesting that NFL football was not a good substitute for itself.

DEFENDANTS' CASE

We now turn to the defendants' case. There were two key economic issues that arose in this case. The first was whether the NFL should be viewed as a single entity, a joint venture, or as thirty separate, competing firms. Although the plaintiff's expert concluded that the NFL teams were thirty separate firms, the defendants' expert concluded that, at a minimum, the NFL was a joint venture that produced a product that could be produced only as a joint product.

The second economic issue was whether or not the NFL had monopoly power in any relevant market. The defendants' expert concluded that neither the alleged "market for professional football" nor the alleged "market for professional football stadiums in the US" constituted a relevant market for antitrust purposes. Both proposed market definitions excluded products that constrained the behavior of the NFL.

THE NATURE OF THE NFL PRODUCT

In thinking about the first economic issue—whether the NFL should be viewed for these purposes as a single entity (or, at a minimum, a joint venture) or as thirty, separate, competing entities—it is crucial to consider the nature of the product sold in the marketplace.

The NFL produces a product: "NFL football." That product consists of a series of professional football games played by the thirty-two NFL teams over the course of an NFL season.[20] The season culminates with the Super Bowl, where the champions of the American and National Football Conferences play each other to determine the ultimate champion. The season ends with the NFL's Pro Bowl, which features the best players in the League.

As discussed above, the League's product must be produced by the League as a whole. The NFL as a whole works to ensure that the quality of NFL football generates fan interest. Relative competitive balance is a critical component to the NFL's (or any league's) popularity. Fans' interest is increased if their team is a potential champion—that is, if their team has a reasonable opportunity to win each game and also to compete for the championship. Team standings, winning streaks, rivalries, playoffs, championships, and the like are also very important parts of what makes NFL football a successful entertainment product.

The NFL has established revenue sharing as one of the many methods of achieving its goal of reasonable competitive balance among the member teams. An important example of revenue sharing is the equal sharing among all NFL teams of the revenues earned from the national television contract.

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[20]When the St. Louis CVC sued the NFL, there were thirty NFL teams in the League. Since that time, the League has expanded to thirty-two.

These and other shared revenues help to ensure that each NFL team has the resources to field a competitive team.

In summary, NFL football can only be produced by the League as a whole. It follows that, if the League produces the product at issue, the League should be viewed as a single entity or, at a minimum, a joint venture. Moreover, regardless of whether or not the NFL has monopoly power as a single entity or as a joint venture, the NFL has a legitimate interest in the quality (measured by consumer appeal) of its own product.

PRINCIPLES OF MARKET DEFINITION

Turning to the second economic issue—whether or not the NFL has monopoly power in any relevant marketplace—we consider separately the market that includes the NFL product and the market that includes the leasing of stadiums. We begin, however, by reviewing the basic principles of market definition.

The question "What is *the* market?" is not well defined in economic analysis outside antitrust. As used in antitrust analysis, its answer consists of considering the products and producers that constrain any attempt by a seller to exercise alleged monopoly power, which is defined as the power to charge supranormal prices by restricting output or output quality.

One type of constraint that limits or eliminates monopoly power is demand substitutability—the alternatives available to buyers. These alternatives operate in the following manner. Suppose the company or group of companies being examined attempted to raise prices above competitive levels and thereby earn excess profits. They could not profitably raise prices if buyers could readily substitute the products of other companies.

A second type of constraint that can serve to limit or eliminate monopoly power is supply substitutability—the ability of suppliers who do not currently make demand-substitutable products to enter quickly and make such products in the event of an attempt by the alleged monopolist to charge supranormal prices. Obviously, supply substitutability differs from ease of entry in degree rather than in kind.

When defining a market and considering monopoly power, one must be careful in analyzing product differentiation and differences in quality. Markets can include products that differ in aspects other than price. In such markets, even though the products are not exactly the same, they still compete against each other for consumers' time and dollars. Prices in differentiated-product markets say nothing about monopoly unless differences in quality levels and differences in costs have been accounted for.

The point here is that the ability to charge a high price can be the reward for producing a high-quality product that is attractive to consumers. This ability is not monopoly power. Monopoly power in an output market in-

volves the ability to charge high prices (relative to others) *without* offering superior products. It involves the power to charge high prices by restricting output, not by offering what, in terms of enhanced quality, is a larger output than would be the case if a lower quality product were offered.[21]

THE RELEVANT OUTPUT MARKET

NFL football is a product that is sold in two ways.[22] It is sold to fans attending games in person (this includes the "gate" and other stadium revenues), and it is sold for exhibition on television. The latter sale is a very important one: in 1994, average media revenues were nearly twice the size of gate and stadium revenues.[23] In both types of sale, the NFL competes with many other entertainment products that have differing characteristics and quality levels. The market is a differentiated-product market.

NFL football fans, who are one type of consumer of NFL output, have many ways to spend their leisure time; they do not have to watch an NFL football game. For instance, a television viewer may elect to watch professional basketball, hockey, baseball, or NCAA football or basketball, or attend a concert, see a movie, etc. Attendees at games also have a variety of choices as to how to spend their time. Indeed, when NFL fans were asked what they did in their spare time, they indicated that they participate in a vast array of leisure activities.[24] The NFL competes with these other forms of entertainment for fans' time and attention.

Regarding the revenues that the NFL derives from the sale of its product to television networks, the relevant output market is the national market for entertainment products. As we shall show, the League has no monopoly power in this differentiated-product market, and must compete aggressively to be successful. The League's control of its product is critical for that product's success in the highly competitive output market in which it competes.

That competition is especially strong in regard to television licensing. The vast majority of television programming is advertiser-supported. This means that advertisers, not viewers, are the buyers of television programming. Advertisers purchase time during NFL telecasts in an effort to reach customers who might be interested in buying their product. The value of NFL programming reflects its demographics, reach, and cachet value for advertisers. These same advertisers recognize that there are many other programs available on which they can attempt to attract potential customers.

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[21]For a more detailed discussion of market definition, including a discussion of the "cellophane fallacy," see Fisher (2002).

[22]It is also sold by radio and through the Internet.

[23]"Suite Deals," *Financial World,* May 9, 1995, at 50.

[24]Interviews were conducted by ESPN Chilton.

While the NFL is good at attracting audiences with a significant number of male viewers (particularly, ages eighteen to forty-nine), many other television programs (including other sports programs, news, and prime-time programming) reach audiences with similar demographics. Moreover, these other programs deliver their audiences at similar prices (where prices are typically measured by CPMs, or the costs per thousand pairs of eyeballs). It is important to keep in mind that that the relevant comparison is not between the prices of advertisements on the NFL and on another program. Differences in these prices reflect, at a minimum, differences in audience sizes. It is more useful to compare CPMs. An analysis of CPMs indicated that the NFL prices were in line with those of other programs with similar demographics.

The existence of other programs where NFL advertisers can and do reach similar audiences at similar prices constrains the NFL from being able to raise its price above the competitive level. Were the NFL to attempt to charge supracompetitive prices, its advertisers would stop purchasing NFL spots and would instead purchase advertising spots on these other programs.[25]

In the absence of monopoly power, there is no anticompetitive reason for the NFL to restrict its output. The NFL wants and needs to appeal to fans—fans who have many other entertainment alternatives.

As we explain below, the NFL's relocation procedure assists this competition. We note, however, that even if such competition were more restricted, the League would still have a legitimate interest in sustaining the quality of its own product. We now consider the League's interests and actions in doing just that.

THE NFL HAS A PRO-COMPETITIVE INTEREST IN THE LOCATION OF ITS TEAMS

As we discuss in this section, the NFL has a pro-competitive interest in where its teams are located.[26] The financial success of the League is dependent on developing and retaining fan interest. This, in turn, is dependent on maintaining geographic diversity and franchise stability.

Geographic diversity reflects the national nature of the product, with live games being played *throughout* the country. Because the success of the League depends on fan interest, the League generally attempts to ensure that large population bases have access to live NFL football. Moreover, as

[25]For a more extensive analysis of this point, see Fisher et al. (2000).

[26]A separate, but related issue is whether the NFL has a pro-competitive interest in the number of teams in the League. While we do not address this topic directly (as it was not part of the Complaint), many of the same issues arise. We have argued elsewhere that the NFL also has a pro-competitive interest in the number of teams in the League.

avid fans are found throughout the country, the League attempts to ensure that teams are likewise spread out throughout the country.[27] If all of the teams were to move to the Northeast, for example, fans outside that region would eventually lose interest.

Geographic diversity is also important in competing with other television programming for the patronage of the television networks such as ABC, CBS, FOX, NBC, ESPN, and TNT. The NFL sells national television rights to telecast all NFL regular season and postseason games. These rights are a vital source of revenue for the League and its member teams. If NFL franchises were concentrated only in particular regions of the country, national networks would be far less interested in telecasting NFL games.

Further, the importance of television revenues means that the maintenance of geographic diversity is related to the maintenance of competitive balance. The maintenance of geographic diversity requires that the League adopt ways of sharing revenue, and this is done most importantly with revenue from television. If no action were taken by the League, the more profitable franchises would be able to spend more money on players and coaches than could the less profitable ones. This would lead to a decline in competitive balance and to fan interest.

The NFL's interest in the location of its teams, however, extends beyond geographic diversity. In generating and maintaining fan interest, the NFL also is necessarily committed to franchise stability and the fan loyalty that franchise stability encourages and rewards. The League has been subjected to tremendous nationwide criticism from its fans whenever a team has relocated (including, as we discussed above, criticism from St. Louis).

Franchise stability protects the identification of a particular team with a particular city and its fans. For example, the city of Pittsburgh is identified with the development of the steel industry. It is doubtful that the "Steelers" would have the same degree of identification with any other city. Changing team names is not sufficient to address this issue because once a team changes its name (e.g., Browns/Ravens), it takes on a new identity. As a result, the value created by the years of investment by the individual team, the city, and the League as a whole is significantly diminished.[28]

Franchise stability also protects rivalries, which are important to fan interest and fan loyalty. Rivalries such as Pittsburgh versus Cleveland, or the Cowboys versus the Redskins, do not develop overnight; they are the result of many years of intense competition, fan dedication, and substantial marketing investment by both the teams and the League. Relocations can destroy rivalries, undermining fan interest and causing harm to the League as a whole. Note that while a relocating team that is one half of a rivalry will

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[27]According to a study conducted on behalf of the NFL, both NFL fans, in general, and avid NFL fans, in particular, can be found in nearly the same distribution throughout the United States as the population as a whole.

[28]In contrast to the NFL, during the short life of the USFL, which failed, there were a very large number of team relocations.

take account of the effect of rivalry destruction on itself when deciding whether to move, it will not take account of the similar effect on its rival team.

Franchise stability also protects existing investments, and encourages future investments by cities, states, and local businesses that support an NFL franchise. While local governments and business typically negotiate long-term contracts to help minimize their exposure to the risk of franchise relocation, they have been unable to eliminate all of this risk. The willingness of cities, states, and local businesses to invest in NFL football is influenced by the stability of NFL franchises. Hence, rules that promote franchise stability assist the League by providing local governments and businesses with additional security when they invest in stadiums or other League-assisting activities.

EXTERNALITIES AND FREE RIDING IN TEAM RELOCATION

The matter of team location is one in which the interests of the League and the interests of particular members will often not coincide. Indeed, this is an area in which externalities are likely to come into play.

To see this, observe that a team considering relocating from City A to City B will be interested in the relative extent of fan interest in the two cities, the related question of the relative support it can expect from public authorities and private businesses, and, of course, in the relative terms on which it can acquire or lease stadium facilities. But, while these matters will also be of interest to the League, there are other League interests that will not be fully reflected in the individual team's considerations. These are the interests of geographical diversity and franchise stability examined above.

When a team considers moving from A to B, it will not take into account the full effect that such a move has on the geographic diversity of the League. In the most immediate sense, the move may create scheduling difficulties for the League and, more importantly, leave a major television market without a franchise (as happened in Los Angeles when the Raiders and Rams both departed in the middle 1990s). In the longer run, a policy of permitting teams to relocate freely can have adverse impacts on the geographic distribution of teams, which in turn can affect fan interest and national television revenue. While each moving team may consider the effects of its move on its own share of such revenue, it is unlikely to take into account the effects on the shares of the other members of the League.

The same sort of phenomenon is even more marked in the case of franchise stability. We have already remarked that a team that makes up half of a traditional rivalry will consider only the effects of the loss of such a rivalry on itself in deciding to move; it will not consider the effects on the rival left

behind. More generally, a policy of free team movement will lead to a situation in which fan interest drops and fans and local authorities and businesses feel insecure. A specific team that moves will not care about this effect on the League in general, but only about the effect on itself.

Beyond such considerations of negative externalities, there are also positive externalities involved in team movements, embodied in "free-riding." Free-riding occurs when one party takes actions that benefit another without being able to charge for such benefits. Since the incentives for action will not take account of such effects, the result will be inefficient. In effect, unless one gets paid, who will care to sow where another will reap?

In the context of a sports league such as the NFL, free-riding occurs when a team benefits disproportionately from the actions of the League and its member teams, without compensating the League and the other teams for those actions. Free-riding leads to inefficient outcomes because the League and its member teams will not have the appropriate incentives to invest in the promotion and development of the product if a particular team alone is allowed to capture disproportionate benefits from those efforts. Untreated, free-riding leads to economically undesirable or inefficient outcomes.

Team relocation often involves free-riding, as was illustrated by the St. Louis case. The value of the Rams in St. Louis was created by the promotion and development efforts of the entire League, not by the Rams alone. Indeed, the demand in St. Louis was for NFL football, not for the Rams' franchise specifically. St. Louis did not build an NFL-quality stadium to attract the Rams; rather, it began construction of its convention center (which included just such a stadium) with the hope that it would be awarded an NFL expansion team. Unless the League and its other member teams were appropriately compensated for the efforts to develop that demand, which was reflected in the extraordinary deal that the Rams were offered to move, the Rams would have enjoyed a free ride, and an inefficient outcome would have resulted. The incentives of the League and its teams to improve the product would be reduced if one of the teams could simply take advantage of such efforts by moving to a city where fan interest was great.

To sum up, in the absence of League relocation rules and regulations, an NFL team owner will have an incentive to move the franchise whenever the citizens of one city will pay more for that franchise than the citizens in the incumbent city. The League is interested in that calculation, also, but the interests of the League involve the consideration of other costs and benefits that the moving team will not take into account. Because those considerations involve the creation and maintenance of fan interest in the League's product, taking account of them is pro- rather than anticompetitive. It is the League's interest in its product and not the moving team's interests that coincide with those of its fans and consumers in general. A policy of permitting a team to relocate whenever it is in its private interest to do so will thus neither be efficient for the League as a whole nor pro-competitive, since the

League's interests stem from those of the fans and the maintenance of their interest.

Note in this regard that, with respect to relocations to cities that have no team (such as St. Louis before the arrival of the Rams), the interests of consumers and the League are necessarily aligned, provided the benefits of the relocation are appropriately shared to avoid free-riding. In particular, the League can have no anticompetitive output-restricting interest in preventing such a move. Games in St. Louis cannot materially affect ticket prices in other NFL cities. The number of nationally telecast games does not depend on the location of the teams. If a move makes the NFL more attractive to consumers taken as a whole, then it will be in the League's interest to permit it—again provided that a reasonable portion of the gain from the move can be appropriately shared.

A rule-of-reason analysis of a league's relocation rules should therefore be an analysis of whether those rules are reasonably designed to prevent the externality and free-riding effects described above. To such an analysis in the case of the NFL, we now turn.

ANALYZING THE NFL'S RELOCATION RULES AND PROCEDURES

The principal features of the NFL's relocation procedures are as follows. A team that wishes to relocate from A to B must make an application to that effect. Among other things, the application must cover issues of expected profitability in both cities, as well as fan support and the attitude of municipal authorities. The team must also cover the question of the adequacy of the actual and proposed stadiums and the terms of the leases. The team is not limited to the matters listed by the League, but may discuss any other issues that it deems relevant to its case.

The team's application is submitted to the commissioner, who then issues a report to the League's board. As with other major decisions, a vote to permit relocation outside a team's home territory requires a supermajority of three-quarters of all teams to pass. The League can, and often does, require the team to pay a relocation fee as a condition of the League's approval.

In the case of the Rams application, the commissioner's initial report raised a number of concerns regarding the various ways that the League, as a whole, might be affected by the proposed relocation. These issues included the potential impact on television viewers of the departure of an NFL franchise from the country's second-largest television city (and the loss of one of only two West Coast NFC franchises),[29] the possible disrup-

[29]As we mentioned above, the NFL is composed of two conferences, the National Football Conference (NFC) and the American Football Conference (AFC). Teams from within each conference

tion to the competitive balance among teams, and the League's right to earn the profits associated with its past efforts to develop that product—the free-riding issue. When it came time for the vote, the Rams' initial relocation proposal was rejected. A modified proposal, including, among other things, an indemnity provision and a relocation fee of $29 million, was approved.

In contrast to the plaintiff's assertions, the ability to charge such a fee, together with the supermajority rule, is in fact a crucial feature of solving the externality and free-riding problems.

As we have seen, the relocation of an NFL team can have negative effects on the League as a whole or on particular member teams. In addition, taking up a profitable opportunity can have a free-riding effect in which the relocating team preempts for itself an opportunity created by collective action. However, if the move were profitable for the League as a whole—and this can only happen if it were pro-competitive and hence in the interests of consumers generally—then the move should be permitted. In such a case, there must exist a way to share the benefits brought about by the move so that no League members lose and some gain. That sharing is accomplished largely or completely by means of the relocation fee, which thus serves both to offset the harms done by the move and to ensure that free-riding is no longer free but is appropriately priced.

The supermajority rule plays an important role here. When a team relocates, the effects on the other teams are not uniform. In the case of a dissolution of a traditional rivalry, for example, there will be an important special negative effect on the traditional rival who is left behind. Less dramatically, there can be scheduling problems that affect teams in one region more than in others. On the other hand, a team moving to a new location with a larger stadium or the ability to charge higher ticket prices may partly benefit those teams who play at the new location often and thus share in the gate.

The NFL's agreements with the players as to salaries require that a minimum percentage of certain League revenues flow to the players. When a team moves and total revenues rise, all teams will be obligated to raise salaries by the same percentage, even though the increase in revenues is not evenly spread among them. The relocation fee is a way of compensating teams for this as well as other disparities.

If relocations were approved by a simple majority, however, then some moves might be approved that would not be in the interests of the League as a whole. To see this, observe that because moves have different effects on different teams, there might be a simple majority of teams only relatively slightly injured by the move. Such teams would feel the move to be in their interests at a relatively low relocation fee (and a formula for sharing that

play against one another during the regular season. The two conference champions play against each other at the end of the season in the Super Bowl.

fee), even though some other teams might be very seriously negatively affected. Then a simple majority vote would approve the move even though, taking everything together, the teams collectively lost by it.

On the other hand, requiring unanimity would surely not work, as it would prevent moves that are in the interests of the League as a whole from taking place. If for no other reason, this could happen because of hold-up behavior, where a particular team or teams attempt to gain too large a piece of the relocation-generated pie by threatening to withhold their votes.

While there is no way to know that requiring a three-quarters supermajority is the efficient answer to such problems, it is likely that the correct requirement lies between a simple majority and a consensus.

The NFL's relocation rules and procedures therefore act to control the externality and free-riding problems and permit those moves that are in the pro-competitive interests of the League.

In the case of the move of the Rams, the League's system worked well. The operation of the relocation rules and regulations (including a provision for a relocation fee) led to a move that benefited the Rams, the League as a whole, the CVC, and consumers. The fact that the Rams gained was reflected by their willingness to compensate the league for the impact of the move. The fact that the League gained was reflected by its affirmative vote. The fact that the CVC gained was reflected by its willingness to pay for the Rams, even though it would have preferred to pay less.

It is important to note that the outcome that was in the consumers' best interest was achieved in this matter: The Rams moved to St. Louis and compensated the League for free-riding and harming other teams. The relocation rules did not prevent this from happening. Indeed, it is precisely because the rules worked that a mutually beneficial outcome was achieved. This happened because, as we have seen, the League's interests in such matters are to attract consumers in its competition in the output market. The move and the operation of the relocation rules and regulations were procompetitive in that regard.

COMPETITION FOR INPUTS—IS THERE A "MARKET" FOR NFL FOOTBALL STADIUMS?

The plaintiff claimed that the NFL's relocation rules and procedures suppressed competition for the leasing (or purchasing) of stadiums. In particular, the St. Louis CVC claimed to be damaged because of the unfavorable terms it obtained in its negotiations with the Rams. The plaintiff claimed that the League created and exercised monopsony power (monopoly power as a buyer) in an input market—the supposed "market for stadiums meeting NFL requirements."

To analyze this claim requires consideration of the appropriate market

definition involved. We have seen that market definition in the case of the alleged exercise of monopoly power by a *seller* requires considering what constrains that power—consideration of the alternatives to which buyers can turn and that other sellers can quickly provide. In the case of the alleged exercise of *monopsony* power by a *buyer,* market definition requires considering what constrains that power—consideration of the alternatives to which *sellers* can turn and that other *buyers* can quickly provide.

To begin such an analysis in the present case, one must ask what it is that the owners of football stadiums are actually selling. As we discuss below, it is too narrow an answer to this question to look only at the situation after a stadium has been built and negotiations with a particular team are under way. In thinking about this question, it is useful to distinguish private builders of stadiums and public authorities.

Private builders of stadiums are not in a narrowly defined business of providing only stadiums to NFL teams. Rather they are in the business of large-scale real estate development. Similarly, public authorities that are building or assisting with football stadiums are not in a narrowly defined business of attracting NFL teams. Rather, they are in the business of making their cities attractive to individuals and businesses, and NFL football is only one way of accomplishing this end.

Hence, the relevant input market here includes both large-scale private investments in real estate development and public investments designed to make cities attractive. While this includes *existing* and *potential* facilities suitable for a number of activities of which the exhibition of football is one, it also includes other large development projects in which public and/or private developers may invest (for example, the Arch, representing St. Louis as the Gateway to the West, and other local public goods such as museums, parks, hospitals, or public schools).

In examining competition in this input market, it is useful to divide the analysis according to whether the facility (the product of the investment) has already been constructed. This simplifies the analysis but in no way implies that there are separate markets for existing and potential facilities.

Potential Facilities

Since both private investment funds and public funds have many alternative uses, the NFL can have no monopsony power over facilities suitable for exhibiting professional football that have not yet been constructed. Stadium investors, both public and private, have many other attractive investment opportunities. Evidence is found in the controversy generated by stadium funding proposals. A typical discussion considers the relative merits of funding a stadium versus funding public works projects such as schools, fire and police protection, libraries, and garbage collection. For private investors, stadiums do not offer investors any economic investment return not easily obtained elsewhere.

Of course, potential facilities have an advantage over existing facilities when it comes to negotiating lease agreements. In particular, long-term contracting prior to a facility's construction protects all sides, given a stadium's large up-front costs and relatively small operating costs.

Existing Facilities

The analysis of existing facilities is more complex because some of these facilities are occupied by teams and some are not. The NFL's relocation rules may provide the owners of occupied stadiums with bargaining leverage over their home teams, since the rules hamper the ability of the teams to move. The plaintiff argued, however, that the rules provide moving teams (in particular, the Rams) with bargaining leverage over empty new facilities and that this amounts to deliberately attained monopsony power. The plaintiff argued further that the fact that the NFL requires stadiums to meet a number of specialized requirements narrows the market to NFL-standard stadiums.

Such an argument is confused. If we were considering the alleged monopoly power of a stadium *seller,* then the fact that the NFL has special requirements might be relevant, for it would limit the alternatives available to the buyer. But we are here considering the alleged monopsony power of the NFL as a *buyer.* The fact that it has special requirements does not limit the alternatives available to sellers.

This can be seen from the following analogy. Suppose that a maker of address labels were, without prior agreement, to print address labels with a specific name and address on them. Those address labels would meet special requirements, but would be essentially useless to anyone but the addressee. Having printed the labels, the maker could not then reasonably claim that the addressee had monopsony power because he or she required labels with a specific name and address.

So it was with the St. Louis CVC. Any negotiating leverage possessed by the Rams was created when the St. Louis parties committed the funds to construct and began building the Trans World Dome facility. By deciding to build the facility prior to signing long-term leases with potential occupants, the CVC placed itself in a far weaker negotiating position than would have been the case had the CVC first negotiated long-term leases. This had nothing to do with actions taken by the Rams or the NFL or with the League's alleged monopsony power.

Further, with respect to the effects of the NFL's relocation rules and procedures, those rules and procedures do not prevent stadium operators from talking with more than one potentially relocating NFL team (nor do they prevent an NFL team from talking with more than one stadium operator). There is simply no League prohibition against simultaneous bidding by teams for stadiums. Indeed, prior to the move by the Browns, a number of NFL teams discussed with Baltimore the possibility of relocating to that city.

The CVC also could have solicited bids from other franchises, but it

apparently chose not to do so. Whether that choice was a matter of the negotiations between the CVC and the Rams or a decision by the CVC not to risk losing the Rams to another city, the choice was not imposed by the NFL's relocation rules and regulations.[30]

Existing facilities face what is commonly known as a *bilateral monopoly* situation when negotiating leases with a single NFL team. This is a bargaining situation in which both sides have the ability to influence the terms of the agreements.[31] In the course of negotiations under such circumstances, the two sides must determine how to divide the various revenues and costs associated with operating the facility and exhibiting NFL games there. In such a situation, both parties have an interest in achieving the economically desirable (efficient) outcome. Where they differ is the division of the surplus from doing so.

No output reduction and no economic inefficiencies resulted from the negotiated agreement between the St. Louis Rams and the St. Louis CVC. While the St. Louis CVC would doubtless have preferred a more favorable outcome, its failure to obtain one was of its own doing. There was no evidence that any other NFL team ever considered moving to St. Louis and none that such consideration was prevented by the NFL's relocation rules and procedures.

Even had this not been the case, it would have been wrong to conclude that NFL rules and procedures are anticompetitive. The rules and procedures are pro-competitive in that they assist with the production of a consumer-desired product on the output market. The accompanying effects on the input market may shift power in certain bargaining situations, but the shifts go both ways. In any case, even though from the viewpoint of a nail the entire enterprise of building a house is a conspiracy to hit it with a hammer, public policy must take a wider view.

THE OUTCOME AND SUBSEQUENT DEVELOPMENTS

In November 1997, near the conclusion of the trial, the judge dismissed the case and directed a verdict in favor of the NFL.[32] Approximately one year later, the Eighth Circuit affirmed the judge's decision. The CVC was prob-

[30]Evidence presented at trial showed that the St. Louis CVC believed the representative of the Rams when he told them that if they simultaneously negotiated with other teams, the club would terminate its negotiations with St. Louis. The St. Louis CVC never tested this claim by calling another team after starting negotiations with the Rams.

[31]Alternative uses of the stadium/convention center increased the bargaining position of the CVC with respect to its negotiations with the Rams. Alternative uses, such as conventions, also provide significant benefits to the community as a whole, including increased hotel and restaurant business. In fact, some have suggested that the benefits to St. Louis from alternative facility uses exceed the benefits from NFL football games.

[32]The *St. Louis Post-Dispatch* reported that an informal vote among the jurors at Denny's indicated that they would have voted in favor of the CVC.

ably not thinking about these courtroom defeats when the St. Louis Rams went on to win the Super Bowl two years later, only four years after the team's arrival in St. Louis.

The judge's decision was one of a growing number of significant, recent antitrust decisions favoring sports leagues. In 1996, the Seventh Circuit reversed a district court decision holding that the NBA was not a single enterprise. In that case, the Chicago Bulls challenged an agreement among the NBA teams that only the League, and not any individual team, could license the right to telecast NBA games in the national market. In reversing and remanding the case back to the district court for a retrial, the Seventh Circuit stated that it saw no reason why the NBA "*cannot* be treated as a single firm. . . . It produces a single product; cooperation is essential (a league with one team would be like one hand clapping); and a league need not deprive the market of independent sources of decision making."[33]

In yet another sports-related antitrust case, a group of professional soccer players sued Major League Soccer (MLS) and its member team shareholders. The plaintiffs claimed that either MLS was guilty of conspiracy or it had illegally exercised monopoly power. With respect to the conspiracy claim, the plaintiffs argued that the court should pierce the "veil" of a business organized as a single entity in order to determine whether participants within the corporation conducted activities that would have violated the Sherman Act had those participants been independent actors. The court dismissed this claim. It concluded that MLS was a single corporation incapable of conspiring with itself and its constituent members.[34]

With respect to the monopoly claim, the jury found that the plaintiffs had failed to prove that the relevant geographic market was limited to the United States or that the relevant product market was limited to Division I professional soccer players. Having failed to establish the relevant market, the plaintiffs could not establish that the relevant market was concentrated. The appellate court affirmed the decision.

In a recent case remarkably similar to that of the Rams, the Raiders claimed that the NFL had violated the Sherman Act, alleging that the NFL had illegally abused its monopoly power in the "market for stadiums offering their facilities to major league professional football teams in the United States" and in the "market for major league professional football including the geographic area around the San Francisco–Oakland Bay Area."[35] Prior to trial, the district court dismissed all antitrust claims and dismissed without prejudice the state law claims.[36]

[33]*Chicago Professional Sports Ltd. Partnership* v. *National Basketball Ass'n,* 95 F.3d 593 (7th Cir. 1996) at 598–99; emphasis in original.

[34]*Fraser* v. *Major League Soccer, L.L.C.,* 97 F. Supp. 2d 130 (D. Mass. 2000).

[35]Counterclaim and Third-Party Complaint, *National Football League* v. *Los Angeles Raiders* at 8.

[36]The Raiders refiled these claims in the L.A. County Superior Court. The case went to trial, and in April 2001 a jury found in favor of the NFL on numerous related claims (although some claims

Regarding market definition questions, the 1999 district court decision on behalf of the NCAA is yet another example of a recent antitrust decision recognizing that a sports league, or a product that it sells, does not constitute a relevant market. In that case, Adidas challenged the NCAA's rule limiting the amount of advertising that could appear on a student athlete's uniform and equipment as an unreasonable restraint of trade and an attempt to monopolize the "market for the sale of NCAA promotional rights."[37] In granting the NCAA's motion to dismiss Adidas antitrust claims, the district court rejected Adidas's market definition, stating that "Adidas has failed to explain or even address why other similar forms of advertising . . . are not reasonably interchangeable with NCAA promotion rights or sponsorship agreements."

Despite these significant victories for sports leagues, plaintiffs continue to bring antitrust lawsuits against the leagues. For example, Salvino, Inc., filed suit against both NBA Properties (NBAP) and Major League Baseball Properties (MLBP) alleging that NBAP and MLBP's separate decisions not to grant Salvino a license to use various marks on Salvino teddy bears is anticompetitive.[38] Many issues that arise in these cases are by now familiar. For example, in its case against NBAP, Salvino alleged that despite the fact that NBAP is structured as a single entity, the corporation is actually an illegal cartel. Moreover, according to the plaintiff, the relevant market at issue included *only* "professional basketball merchandise." NBAP contended that Salvino is incorrect with respect to both allegations and asserted that it has the pro-competitive right to determine how its marks are used. The questions at issue appear to be similar to those that have been addressed by earlier courts. But, as yet, no court has ruled on these specific issues.

Finally, we note that the recent decision by Major League Baseball to reduce the number of teams in its leagues prompted several significant responses, many of which are antitrust-related. However, these responses have been quieted for the next four years, as one of the provisions in the recently signed collective bargaining agreement between Major League Baseball owners and the players association is that there will be an elimination of contraction talks during the life of the four-year contract. But if discussions of contraction reemerge, many of the same issues as those discussed in this chapter are likely to prove relevant to Major League Baseball's ultimate decision to reduce the number of MLB teams in the league.

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were not tried). In September 2002 a Superior Court judge, citing juror misconduct, ordered a new trial.

[37] *Adidas Am., Inc.* v. *National Collegiate Athletic Ass'n,* 64 F. Supp. 2d 1097, 1101 (D. Kan. 1999).

[38] *NBA Properties* v. *Salvino, Inc.,* and *Salvino, Inc.* v. *Major League Baseball Enterprises and Major League Baseball Properties, Inc.*

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