**Concordia UNIVERSITY chicago**

**Masters Program**

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| **Assignment Title:** | Competitive Balance in the NBA |
| **Date of Submission:** | 06/23/2020 |
| **Assignment Due Date:** | 06/28/2020 |
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| **Course:** | SPML-6020 |
| **Section Number:** | 1 |
| **Semester:** | Summer |
| **Course Instructor:** | Francis Marshall |
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Competitive Balance in the NBA

Competitive balance is a term open to diverse interpretations, due to there not being a universally accepted definition for what criteria compromises competition in professional sports leagues (Horowitz, 2017, p. 2). Predominantly, the level of equality amongst teams in a professional sports league has been a deciding factor for assessing competitive balance (Louchheim, 2018, p. 4). However, this only further complicates interpretation of the term, as winning percentages, championships, and uncertainty of outcome can all be used to assess league competition (Louchheim, 2018, p. 15). Correspondingly, the uncertainty of outcome hypothesis suggests greater match uncertainty will lead to greater fan demand and league revenue (Humphreys, 2013, p. 130). In the NBA, ticket and television revenue increases most notably during the Conference Finals and NBA Finals. This has led to the NBA being labeled as uncompetitive by contemporary sports society, as there are only 1-4 true title contenders and dynasties are more likely to form (Horowitz, 2017, p. 9). From a competitive standpoint, the league has been dubbed “top-heavy,” with substantial competition existing among title contenders atop the standings and teams towards the bottom of the barrel being comparatively less significant. However, from an economist’s perspective, a completely balanced league is not feasible or in the best interest of teams, the league, or fans. NBA fans tune into games for the excitement of watching the league’s top superstars and dynasties compete, while also enjoying the thrill of a weaker team upsetting top competition (Humphreys, 2013, p. 130). Contrary to other beliefs, it will be argued the NBA is a highly competitive league where competitive balance positively influences the league’s financial health in three unique stages: top-heavy talent concentration, quick talent turnaround, and match outcome uncertainty.

**Win or Profit Maximization: A Short & Long Run Economic Decision**

Professional sports teams compete to win championships. However, fielding a winning team is expensive and teams must decide whether timing is right to invest in players and maximize wins or to profit maximize (Humphreys, 2013, p. 79). A win maximizing team in the NBA is known as a team seemingly going all in on improving talent to the point where cost is insignificant in comparison to their ultimate goals (Humphreys, 2013, p. 96). The number of teams spending into the luxury tax represents the majority of win maximizing teams (Louchheim, 2018, p. 33). League efforts such as the NBA instituting a maximum salary for players under the 1999 CBA, utilizing a salary cap, and implementing a luxury tax are ways the league has tried to ensure superstars don’t stay with one team for too long and ensure a cycle of competitive balance across multiple markets (Couture, 2016, p. 3). The economics behind a maximum salary provides players leverage for earning larger contracts. High spending teams are often put in a situation where they must decide if exceeding the soft cap and paying a dollar for dollar luxury tax is worth retaining the player or if letting them walk is the better financial option (Couture, 2016, p. 4-5). This measure improves competitive balance by lowering re-signing probability, as superstar players can sign larger contracts with new teams. This helps ensure most dynasties will not last for more than 3-5 years (time of superstar contracts), but quickly redistributes talent to ensure new dynasties continue to form and entertain fans.

A misconception amongst NBA fans, is that teams continually at the bottom of the standings or who are stuck in the middle of the pack are not invested in taking the next step to be competitive and succeed. All teams want to win championships, but realistically it is impossible and would not be a wise financial decision for every team to simultaneously attempt to maximize wins. Thus, teams make an economic decision to profit maximize until the timing is right to attempt to maximize wins. The NBA is structured where if a team rushes to maximize wins, they can in turn help smaller market teams become competitive more quickly, as they are entitled to a portion of their luxury tax (Couture, 2016, p. 28). It is very hard to win a championship in the NBA without spending into the luxury tax. Meaning, from a competitive standpoint a team must be certain they have a legit shot at winning a championship as talent quickly redistributes due to profit maximizing teams benefitting financially from current win maximizing teams’ excessive spending. Corral et al. (2016) stated “Long-term competitive balance appears quite high, as regulations maintain the distribution of talent as much as possible, facilitating the addition of prominent players to the lowest performing teams” (p. 87). The window for winning an NBA championship is momentary and if a win maximizing team doesn’t win a championship in three years, they will lose superstar talent and will quickly be replaced by a new title contender.

**NBA Competitive Talent Redistribution**

The 2006-2007 Boston Celtics finished as the worse team in the Eastern Conference and due to years of profit maximizing were in a financial position to pair Paul Pierce with two other superstars in Kevin Garnett and Ray Allen the next off-season. This single season worse to first turnaround leading to the 2008 Larry O’Brien Trophy, showed how quickly talent can redistribute in the NBA and create opportunities for competitively dormant teams to suddenly become title contenders (Corral et al., 2016, p. 87). This championship run was the domino leading to an era of superstar redistribution ensuring multiple team markets enjoy short windows of title contention in the modern NBA (Louchheim, 2018, p. 24). This was followed by LeBron James, Kawhi Leonard, and Kevin Durant quickly winning championships in one market and transitioning to a new market for hopes of enjoying the same competitive success. From an economist’s perspective, this is a best-case financial scenario for the modern NBA, as league revenue continues to skyrocket due to fan demand remaining high from watching superstar athletes compete and dominate at the highest levels. Corral et al. (2016) stated “Competitive balance is greater if the domain of large clubs is small, if the proximity of teams across seasons is high, and if the continuity of team performance is low” (p. 81). Superstars seemingly controlling their own destiny has also spread the wealth collectively on a team level, as modern NBA superstars are playing quick competitive stints in markets big and small. The quick formation and toppling of dynasties have peaked fan interest, by allowing new rivalries to develop and traditional rivalries to continually reinvent themselves. Economically, rival teams and markets also want each other to succeed to a certain extent, as rivalries competing creates better storylines and leads to a more financially prosperous league (Louchheim, 2018, p. 11-12). This is especially the case when the Celtics and Lakers are competitive and meet in the NBA Finals, as the rivalry’s history alone causes ticket demand to skyrocket.

***Competitive Balance Amongst Large & Small Market Teams***

It must be acknowledged that in the NBA, as well as virtually every professional sports league, location plays a significant role on a team’s winning and financial success. In the sports realm, there is a nearly universal assumption, that a team located in a large market has a better opportunity to field a winning and profitable team (Humphreys, 2013, p. 113). Those in question of competitive balance in the NBA are quick to point to the fact that most NBA champions and the league’s best teams have historically been predominantly in the Western Conference (Couture, 2016, p. 29). This is strictly an examination of winning percentage and while important, should not be the tell-all factor for determining league competitive balance (Humphreys, 2013, p. 163). It can be argued that large market teams are more likely to field dynasties, but competitive balance is ensured when small and average market teams have opportunity to capitalize on championship success during transition years when dynasties end and new ones begin to form.

For discussion purposes, local economic potential, basketball demand, and history will be criteria used to categorize whether all thirty NBA team are currently considered a large, small, or average market team, with market shift potential also noted.

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|  | Eastern Conference | Western Conference |
| Large Market | Celtics, Bulls, Knicks, and 76ers | Lakers, Rockets, Spurs, and Warriors |
| Small Market | Magic, Wizards, Hornets, and Cavaliers | Grizzlies, Suns, Kings, Pelicans, Timberwolves, and Thunder |
| Average Market | Pacers, Pistons, Bucks, Raptors, Heat, Hawks, and Nets | Mavericks, Trail Blazers, Clippers, Nuggets, and Jazz |
| Market Shift Potential | Nets | Clippers |

What this categorization shows in relation to competitive balance, is that the NBA is currently more balanced in terms of conference market equality than league standings may suggest. The league is also volatile, as team markets fluctuate, and small and average market teams enjoy success in-between dynasties. For instance, the 2011 Dallas Mavericks and 2019 Toronto Raptors were recent average market teams winning titles and the 1988-1990 Detroit Pistons were also an average market team winning two league titles in between the success of Bird’s Celtics, Magic’s Lakers, and Jordan’s Bulls. The Warriors also went from an average market team to a league dynasty and remain a large market team following championship success. The Clippers were arguably one of the lowest market teams in the NBA and for years were viewed as the Lakers JV team, but new ownership has propelled them into a top free agent destination. The history of small and average market teams winning in between league dynasties, shows the NBA is competitively balanced in terms of distributing championship success across various markets.

**Economics of “Tanking”**

NBA teams have dual incentives. Teams want to compete or improve to the point where they can compete (Horowitz, 2017, p. 5). In the NBA being stuck in the middle is often referred to as a worse case scenario situation. Middle of the pack teams aren’t good enough to make the Playoffs and not bad enough to have a chance at scoring a top three lottery pick capable of altering their franchise’s direction (Hallisey, 2016, p. 3). Signing a top three pick is especially intriguing for profit maximizing teams. They can potentially acquire a young star and sign them to a below market rookie scale contract for their first four years in the league (Hallisey, 2016, p. 4). This has led to middle of the pack teams in the past simply not trying down the stretch of the season and making games less competitive and exciting to watch. This has not necessarily been done by intentionally losing as many fans think and is rather more subtle. The large number of scoring attempts in the NBA and a team’s best players playing majority minutes, reduces the chances of a random outcome and makes intentionally losing difficult (Horowitz, 2017, p. 10). Rather, tanking is an economic decision made by front offices and has a trickle-down effect on end of season team performance. For instance, a 12th place team’s front office is going to decide improving end of bench talent by picking up veteran players off waivers for the last month of the season is not in the best economic interest of the team. Preferably, using the remainder of the schedule to pull up players from the G League to play extra minutes can help develop these players and see if they are ready for a roster spot the following season. Fans are quick to label this phenomenon tanking. However, from an economic standpoint, a more appropriate term would be experimenting.

***Conclusion***

Competitive balance in sports is not clearly defined and open to diverse interpretations. Traditionally, competitive balance has been considered strongest with the more teams competing for championships and with higher uncertainty of outcome. The league standing effect refers to the idea that fans use uncertainty of outcome as motivation to attend sporting events (Humphreys, 2013, p. 130). In the NBA, uncertainty of outcome still exists, and competitive balance is concentrated, with a cycle of a few superstar studded teams competing at the highest level for championship titles (Louchheim, 2018, p. 37). From a consumer choice perspective, dynasties, and the thrill of watching weaker teams upset dynasties, ensures uncertainty of outcome, and makes the NBA competitively balanced and entertaining to watch (Humphreys, 2013, p. 130). Top-heavy talent concentration, quick talent turnaround, and match outcome uncertainty has ensured dynasties come and go in the NBA to best maintain concentrated competitive balance and disperse economic success across various league markets.

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