

Neefektivnost systému financování sportu v Maďarsku

Inefficiency of the Hungarian sport financing system

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Abstrakt

Na letních olympijských hrách má Maďarsko dlouhou úspěšnou historii, třebaže výkony jeho komercializovaných globálních týmových sportů v posledních desetiletích podstatně klesají. Přes silnou politickou a společenskou dobrou vůli poslat do hry úspěšné profesionální sportovní týmy se trend nemění. Tato studie usiluje o popis vlivu vládních dotací na profesionální sportovní výkony a má za cíl pochopit, proč se mezi úspěšnými elitními sporty a populárními, „atraktivními“ týmovými sporty neplní očekávání (fotbal, basketbal, lední hokej, házená, vodní pólo) v Maďarsku rozevřela velká propast. Tento paradox je důležité náležitě chápat jako pojem, abychom lépe porozuměli konkrétním mechanismům rozhodování a změn ve sportovní strategii. Náš výzkum posuzuje a analyzuje roli, postavení a pozici vládnoucích orgánů systému elitního sportu v Maďarsku od strukturálních reforem roku 2010. S podporou maďarského olympijského výboru byl proveden nefinanční audit, jenž podrobil rozboru šestnáct upřednostňovaných národních sportovních svazů, a to pomocí rozhovorů s čelnými představiteli federací a vyplnění dotazníku odborníky svazů.

Abstract

Hungary has a long successful history in the Summer Olympics, although the performance of its commercialized global team sports has been decreasing radically in the past decades. Despite the strong political and social willingness to field successful professional sports teams, the trend has not changed. This study attempts to describe the effect of governmental subsidization on professional sport's performance with the aim of understanding why a huge gap has emerged between successful elite sports and the popular but underperforming 'spectacular' teamsports (football, basketball, ice-hockey, handball, water polo) in Hungary. It is important to conceptualize this paradox properly in order to better understand the particular mechanisms of decision-making and changes in sport policies. Our research reviews and analyses the role, status and position of the governing bodies of the Hungarian elite sport system since the structural reforms of 2010. A non-financial audit were conducted with the support of the Hungarian Olympic Committee in which the sixteen prioritized national sports federations were analysed, by interviews with leaders of the federations and filling out a questionnaire by experts of the associations.

Klíčová slova: elitní sport, Maďarsko, vládní dotace sportu.

Keywords: elite sport, Hungary, governmental sport funding.

INTRODUCTION

Many governments across the world provide extensive funding to their athletes in pursuit of success at international competitions such as the Olympic Games. The significant increase in governmental resources flowing into elite sports in recent decades has given rise to a number of questions among sport professionals and created a need for understanding the role of the state in elite sport (Figure 1.).

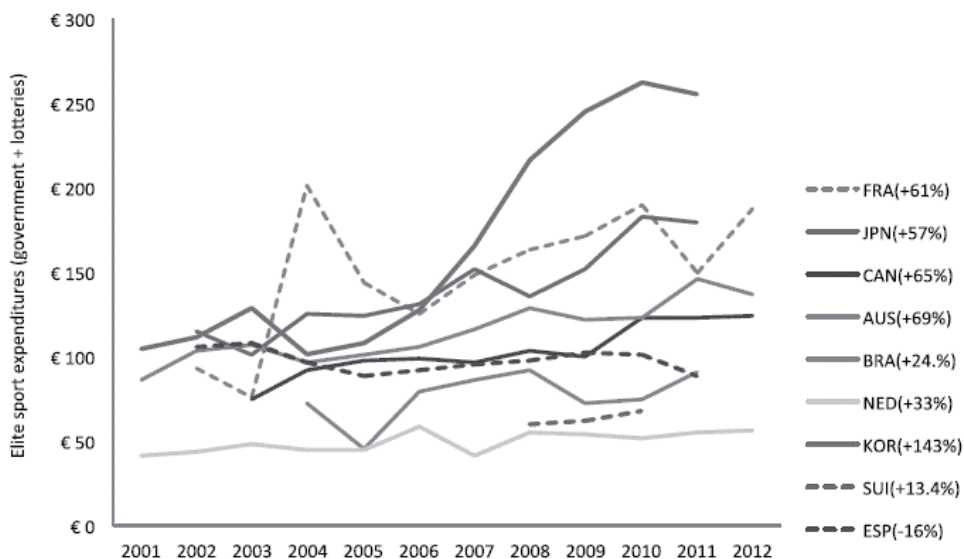


Figure 1: Governmental expenditure on elite sport of the top 20 Olympic medal-winning countries, 2001–2012 (SPLISS II) (De Bosscher, is Bottenburg, Shibli, Westerbeek, 2013)

With the fact that the Hungarian government declared sport a strategic sector in 2010 while assigning significant additional resources to this area (see Table 1, Table 4, Table 5), Hungary also joined the phenomenon of the global sporting arms race as described in the international literature (De Bosscher, Bingham, Shibli, Bottenburg, De Knop, 2008).

Table 1: The expenditure from the Hungarian budget for sports and leisure activities and services (billions of HUF)

	2003–2007 (average)	2010	2011	2012	2013	2014
The expenditure from the Hungarian budget for sports and leisure activities and services	31,2	68.1	61.9	69.2	73.4	168.6
Percentage of the budget	0,33%	0,5%	0,45%	0.46%	0.44%	0.99%

Hungary has a long successful history in the Summer Olympics, although the performance of its commercialized global team sports has been decreasing radically in the past decades (Table 2, 3). Despite the strong political and social willingness to field successful professional sports teams, the trend has not changed. This study attempts to describe the effect of governmental subsidization on professional sport's performance with the aim of understanding why a huge gap has emerged between successful elite sports and the popular but underperforming 'spectacular' team sports (football, basketball, ice-hockey, handball, water polo). It is important to conceptualize this paradox properly in order to better understand the effect of the particular mechanisms in sport policies and to implement successful sport development policies (Sterbenz & Gulyás & Kassay, 2014).

Table 2: Medal table of Summer Olympic

Medal table of Summer Olympics				
1	1952	1972	1992	2012
2	USA	URS	EUN	USA
2	URS	USA	USA	CHN
3	<i>HUN</i>	DDR	GER	GBR
4		GER	CHN	RUS
5		JPN	CUB	KOR
6		AUS	ESP	GER
7		POL	KOR	FRA
8		<i>HUN</i>	<i>HUN</i>	ITA
9				<i>HUN</i>

Table 3:

	Football	Basketball	Ice hockey	Handball	Water polo
1950'	World Championship - 2nd	European Champion	n. q.	-	Olympic Champions
2010	n. q. for WC	n. q. for WC	Division I B 2nd	n. q.	World Championship - 4th
2011	-	n. q. for EC	Division I A 2nd (18)	World Championship - 7th	European Championship - 3rd
2012	n. q. for EC	n. q. for OC	Division I A 3rd (19)	London - 4th	London - 5th
2013	-	n. q. for EC	Division I A 3rd (19)	World Championship - 8th	World Champion

The present study examines the effect of the changed role of Hungarian government in elite sport and the influence of the newly implemented political incentive on the behaviour of sport organizations. The nature of this study is descriptive, so our goal is not to evaluate the unprecedented level of support of the Hungarian government for sport, but rather to explore the principles for efficient allocation of resources and to raise attention for the threats of the existing system.

Governmental sport financing system in Hungary

The Hungarian government introduced a new corporate tax relief system (TRS) for the five most popular team sports (football, basketball, ice-hockey, handball and water polo) to solve the financing problems in 2010. This new method of sport funding has been authorized with an aim to use these additional resources primarily with the purposes of development of youth and sport facility investment.

Its introduction established a combination of coordination mechanisms. In this form, the market elements (flow of resources from businesses to sports organizations, for example, sponsorship) are mixed with the characteristics of bureaucratic coordination (decisions of actors standing in hierarchical relation determine the available limits). These together created a mixture, as business organizations can directly allocate a given part (70%) of their corporate income tax to sports organizations. In this system, a hierarchical bureaucratic coordination mechanism is used with the state and federation approval of sports development programs, while the company is paying like in the market coordination horizontally, but without the consideration their support to the sports organizations (Figure 2).

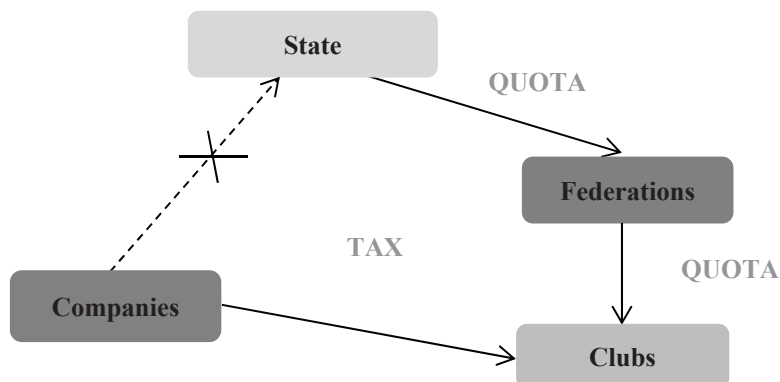


Figure 2: The model of the tax relief system (Gulyás & Sterbenz, 2014)

The federations set a quota based on the development programs used by the clubs, and the federations have a budget constraint set by the state (Table 4).

Table 4: Amounts which came from the tax relief system between 2011–2013 (in 1,000s of EUR) (own ed.)

	2011/12	2012/13
Football	66 667	71 000
Basketball	11 667	17 000
Water polo	7433	16 000
Handball	20 000	25 333
Ice hockey	7 967	12 667
HOC	400	500
Total	114 133	142 500

The government introduced another funding construction for sixteen prioritized sports in 2013 to compensate for the emerging distortion between different sports after the implementation of TRS. In addition, at the same time the state also undertook the debt of several sports federations as had previously happened two times in the 1990s (Table 5).

Table 5: Allocated governmental funding for the sixteen prioritised sports (own ed.)

Federation	2013	2014–2020	Per year	%
Athletics	1 048	60 000	8 571	818%
Boxing (amateur)	984	19 000	2 714	276%
Canoeing	1 121	44 667	6 381	569%
Cycling	315	9 333	1 333	424%
Rowing	311	32 000	4 571	1470%
Fencing	1 005	32 000	4 571	455%
Gymnastics	984	16 333	2 333	237%
Judo	835	36 667	5 238	628%
Modern Pentathlon	1 016	31 667	4 524	445%
Shooting	218	16 333	2 333	1069%
Swimming	2 455	47 000	6 714	273%

Federation	2013	2014–2020	Per year	%
Table tennis	146	9 000	1 286	883%
Volleyball	398	14 000	2 000	502%
Wrestling	1 650	48 333	6 905	418%
Tennis	358	13 667	1 952	545%
Skating	704	10 000	1 429	203%
Sum	15 563	440 000	62 857	404%
Sport infrastructure	14 280			
Coaching programme	259			

Previous studies have showed that as more countries have developed a strategic planning process for increasing their national elite sporting achievement, the return on investment has decreased for many nations (De Bosscher, Shilbury, Theeboom, Hoecke, De Knop 2011). The question raised at once weather this increasing invested amounts of money in the Hungarian elite sport it is enough for achieving greater elite sport success. On the other hand these new governmental financing constructions were accompanied with a strong centralization process of the sport policy system which can be a serious threat for the professional team sports and can lead to inefficiency.

These kinds of structures were characterised by the Soviet-type economies (STE) where the incentive structure did not encourage cost minimization and innovation in the production sector but emphasised meeting output quotas (Eggertsson et al., 1990). The hierarchical central management structure works best when:

1. final outputs have relatively few quality dimensions;
2. the vertical phases of processing a commodity are few;
3. there are substantial economies of scale at the enterprise level;
4. the technology does not require horizontal linkages between enterprises with each unit acting as both supplier and purchaser of inputs.

To transform it to the sport sector we assume that hierarchical and bureaucratic coordination can be effective for the individual-based sport where production does not require horizontal linkage, but is measurable in objective and absolute terms, but not for professional team sport where the performance can be measured only in relative terms and it includes several uncertain factors (Sally & Anderson et al., 2014).

The other problem is that such a significant state funding is softening the budget constrain. The soft budget constraint is an economic concept originally formulated by Kornai (1979, 1980a,b, 1986, 2003). The SBC describes economic behaviour in socialist or post-socialist economies marked by inefficiency and shortage (Kornai et al., 2003). Although the soft budget constraint is particularly persistent in socialist economies, it can also appear in other economic environments. The budget constraint refers to the behaviour of the decision-maker: he uses his budget, which he receives from selling his output, to cover his expenses (Kornai, 1986). The soft budget constraint is appear when an organization faces the possibility of negotiating refinancing, credits or subsidies ex post (Kornai et al., 2003, p. 1104), so the strict relationship between expenditure and earnings depreciate, deriving from the unenforceability of bankruptcy threats, together with various subsidies, credits, and price-supports (Kornai, 1979, 1980a). Enterprises had strong chances for survival because they could always count on bailouts, which left their mark on their behaviour (Kornai et al., 2003).

Storm and Nielsen (2012, p. 191.) analysed the prevalence of the SBCs in the European professional football, and they stated the emergence and persistence of the SBC syndrome in professional sport is due to two main, interconnected factors: (1) the institutional mechanism of

the sport market and (2) the social attachment to the clubs linked to the specific emotional logic of sport, which focuses on winning.

METHODS

A wide range of studies were conducted with the support of the Hungarian Olympic Committee in which the sixteen prioritized national sports federations (Athletics Boxing (amateur) Canoeing, Cycling, Rowing, Fencing, Gymnastics, Judo, Modern Pentathlon, Shooting, Swimming, Table tennis, Volleyball, Wrestling, Tennis, Skating) were analysed. Data collection was based on an overall organizational questionnaire including 48 items of 6 topics (Organization & Strategy; Development; Education; Support & Communication; Medical; and Facilities) with the involvement of the main stakeholders within national sport federations. The results of this survey were compared to the results of one of our former researches which examined the five team sports which receive strong financial support through the corporate tax relief system.

RESULTS

The conducted vocational audit has showed that on average over 70% of the revenues of the investigated sport federation are coming from governmental resources; most of the federations have vanishing sponsorship incomes. The historical results and recent successes show that the strong state funding for individual elite sport is an efficient tool and we can confirm our previous assumption.

In case of team sport's funding system the empirical evidences have pointed out that the introduced method involves many hazards in addition to solving the financing problems.

1. *Re-spreading of the SBC:*

A failure to understand the upper financial constraints of sport development programs is encouraging relevant actors in political bargaining and may lead to the re-spreading of soft budget constraints well known from the socialist planned economy. A lack of or a variable upper limit may result in the marginalization of the management responsible, since there is no "price" for the obtainable resources. This behaviour is particularly dangerous in an industry such as sports, where the actors become particularly susceptible to the irrational escalation trap with their participation in a sport competition (Mérő, 2013).

- Since bureaucratic relations distort the efficiency of the price system (Hayek, 1976), such a financing model is spreading for sports which basically operate under a market coordination model, which breaks down performance-driven economic logic from the daily practice of the sports. According to Milgrom (1993), the market system does not require the transmission of detailed information about resource availability, consumer preferences, or technological opportunities. The prices provide as much information as is needed, and the market system achieves effective coordination with much less communication of non-price information than the centralized, planned system uses.
- Sports organizations which are not aware of the constraint or continue softening it with political bargaining can abuse the support of fans, similar to the "too big to fail" phenomenon known from the banking world. Clubs whose operations are deemed 'too important' subject their stakeholders to the irresponsible practices of its management.' The functioning of the club is set as "too important" that the consequences of irresponsible management have been subjecting to them. The sports federations are not interested in the rigorous treatment, since the decisions (Board) are made by the sports organizations themselves.

2. *The risk of the appearance of corruption:*

Since control of TRS-finance is a bureaucratic type task as it is belonging to the government and sport federation, the fraud, the sources “infiltration” of non-supported areas (professional players’ salaries), and the expansion of corruption inevitably appear. The reduction of these could be realised with the tightening of controls and more severe penalties in the short-term, but cannot be removed due to the logic of the system. In contrast to the long-term results of youth development, short-term profit maximization stands as a stronger motivation which will endanger the achievement of the TRS’s objectives.

3. *The crowding out effect of other revenue sources*

The introduction of the resources from TRS appeared not only as additional resources as was hoped, but also as a substitution effect to replace previous revenues with the marginalization of sponsorship. The dangers of bureaucratic coordination are the depreciation of competition and the role of inventions, gaining of income without performance, shirking behaviour appear. In case of rational decision-makers are expected to appear on the moral hazard phenomenon, these previously rationally behaving, frugal sports leaders will tend to change their behaviour.

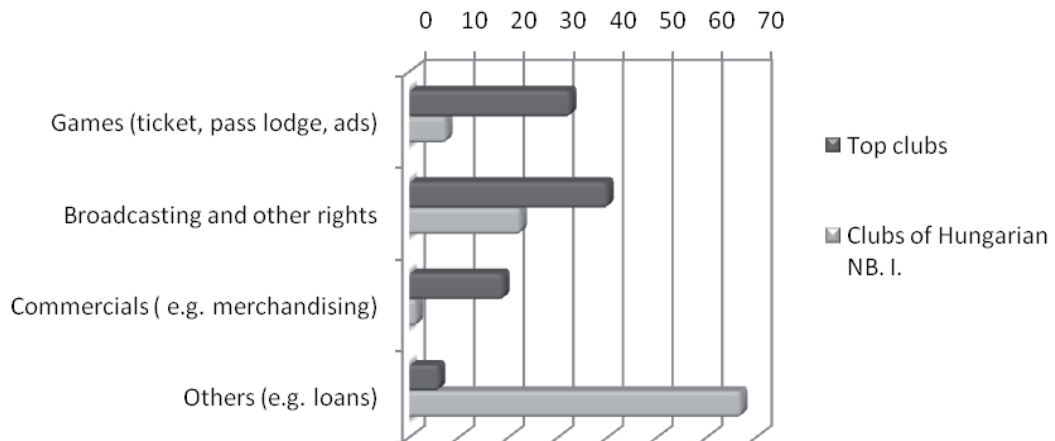


Figure 3: The typical revenue structures of Hungarian and top international football clubs (Source: Deloitte, 2014; Muszbek, 2013)

Muszbek’s (2013) analysis about the economic situation of Hungarian football shows that the Hungarian top football league’s five-year cumulative loss is 34 million euros, and aside from 2010, a loss was made every year. Revenues are growing more slowly than costs, with an average annual loss of 25% of expenditures. An increasing proportion of income is coming from non-market-based resources, and in some cases, from the governmental budget or even public resources. Nearly two thirds of the spending (about 32 million euro) is labour cost (i. e. salary, commission fee). The clubs do not have a business strategy that seeks to achieve the level of international competitiveness in terms of budget (minimum 15 million EUR) as playing in the domestic league does not require on average 4 million euros of cost.

4. *Rent-seeking*

One of the important social impacts of government regulation is that actors are encouraged to change rules which are not favourable to them. Rent-seeking occurs when the benefits do not arise in a natural way (for example, changes in supply and demand), but are artificially created such as with state regulations, and competition starts to rise for the rent. In this case,

the resources that the companies and organizations are spending to get the annuity are socially wasteful (Tollison, 1982).

In the case of TRS, the sport lobby completely and rationally strives to influence legislation for the success of rent-seeking, and this is particularly motivated for it because of the known time frames of the system. Because of the uncertainty surrounding this policy (the European Commission approved this method of sport financing for the Hungarian government until 2017), the participants, contrary to the values of sport, are interested, rationally, in short-term revenue increases rather than in the operation of real sports development programs. For the development of youth it is essential to create a culture in which cooperation can be a dominant strategy against the competition.

CONCLUSION

Our study also confirmed one of the main results obtained under the SPLISS research, which is that the increase in resources for sport does not lead to a clear improvement in sporting performance, and thus, does not support the competitiveness of elite sport. Hungary, with a state-funding dominant-system, seems to be more effective in the case of individualistic sports where a direct connection can be identified between effort and performance. The same incentive system cannot be efficient for team sports where several factors which increase the complexity of the sport can be identified, so the trade-off between effort and performance is not so straightforward.

State funding can be efficient for individual-based sports where performance is measurable in objective and absolute terms. On the contrary, in the case of team sports only the market is able to create such an asymmetric and hard financing system which leads to an efficient long-term usage of resources. The state has to take into account fairness as well. Further studies should be carried out regarding the relationship between state and market in terms of their financing role in sport.

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