in brief...

How Pelé changed Brazilian football (again)

A ban on non-compete agreements in Brazilian football led to an increased lifetime income for players. But as research by **Bernardo Guimaraes**, **João Paulo Pessoa** and **Vladimir Ponczek** reveals, it was older players who gained the most, whereas the wages of young players fell.

Non-compete agreements, which temporarily prevent employees from competing with their previous employer, make it impossible – or at least very costly – for many workers to accept job offers in similar fields, firms or markets. It has been estimated that 18% of all US workers are currently bound by such clauses in their employment contracts. This figure rises to 39% for those with a professional degree and 46% for those earning over $150,000 a year.

The prevalence of non-compete agreements has seen them become an important policy issue in recent years. Towards the end of 2020, for example, the UK government launched a public consultation about a possible ban on them.

The effects of non-compete clauses are theoretically mixed. On the one hand, they might be beneficial for strategic reasons, such as protecting trade secrets. On the other hand, they might adversely affect wages – and by imposing costs on labour mobility, they could hinder the efficient matching of employers and employees.

But how important are these effects? Perhaps surprisingly, football might well provide an answer. Generally, the labour market for footballers involves transfer fees. In August 2020, for example, Lionel Messi made public his intention to leave FC Barcelona. But since his contract was due to expire in 2021, a rival club would have had to pay a £630 million fee to sign Messi. Since no club was willing to pay such an astronomical sum, Messi decided to stay one more year and (potentially) leave the club for nothing at the end of his contract.

Although it is now a common feature in the market for professional footballers, moving freely at the end of a contract was not always an option. Until 1995, clubs in the European Union could demand transfer fees even after the contract had expired. It was only when the Belgian midfielder Jean-Marc Bosman successfully challenged the legality of this state of affairs via the European Court of Justice that football changed forever.

In Brazil, meanwhile, legal arrangements between players and clubs remained as they had been in Europe prior to the Bosman ruling. This changed in 1998 with the Pelé law, named after the great Brazilian player and then minister of sports who had been a leading light in the campaign for a ban on non-competes. After the new law came into force, teams could still include clauses demanding transfer fees for players, but only during the term of their contracts.

What are the effects of non-compete agreements?

In a recent study, we explore this policy change to study how non-compete agreements affect wages and efficiency in the labour market. Brazilian football constitutes a particularly appropriate context for exploring these effects for a couple of key reasons. First, because the end of non-compete clauses was an unexpected policy change, with players and clubs not affecting its timing and main aspects. Second, because the new law had an important effect on the labour market for first-class professional footballers but virtually no impact on the economy as a whole. With few occupational switches between football and other professions, labour market policies and economic shocks affecting other sectors are not a major source of concern.

Pelé image credit: Clubshopprints

Players aged around 28 gained the most from a change in the law, but the wages of young players fell

Figure 1 shows how the new law affected the wages of Brazilian footballers. It shows the estimated relationship between wages and age in the two years just before and just after the Pelé law, controlling for the characteristics of the players that are constant over time. We can see that players' lifetime incomes increased in the years following introduction of the new law, but the age-earnings profile changed. Players aged around 28 gained the most, but the wages of young players fell.

Understanding changes in wages after the Pelé law

What is behind this change in the age-earnings profile? It could be a distributional effect: the law could have raised players' bargaining power. Alternatively, it could be an efficiency effect: by removing barriers to transfers, it could have improved the allocation of players to clubs – for example, making it easier for clubs to hire players that are a good fit with the squad. Both mechanisms could be at play, but what is making the difference?

To separate distributional and efficiency effects, we study the effect of the main elements of the employment contracts used for professional athletes and some other high-paid occupations: long-term contracts; transfer fees; uncertainty about players' performances; and auctions to sign players when contracts expire. The auction requires the payment of a fee to the owner club when non-compete clauses are in place, while no fee is required in the absence of non-competes. We also use a rich dataset on wage and turnover to explore the effects of the Pelé law.

We show that introducing non-compete clauses in labour contracts changes the wage as in the data: a player's lifetime income goes down with non-compete frictions, but the salary for young players rises.

We can also ascertain how well players and clubs are matched, both with and without non-compete agreements. We find that the average pairing quality goes up slightly with the Pelé law, meaning that players and clubs are in more productive matches because, for example, a midfielder can now move more easily to a club where his style fits better with the coach's strategy. But this effect is minimal and accounts for less than 1% of the increase in players' lifetime income.

The main driver of the effects on wages is the auction for a player between clubs after an agreement expires. In a situation with non-compete agreements, the current club gets a fee if it loses the auction, paid by the winning club. This implies that losing the auction is not as bad for the current club when compared to the case without non-competes. At the same time, the buying club takes into account that it has to pay this extra fee to the current club if it wins the auction. Hence, both clubs have incentives to bid less for the player, which substantially reduces players' wages.

In sum, the presence of non-competes put workers in a weaker bargaining position. This channel is likely to operate in other settings, although more research is needed to assess the external validity of our findings.

With the above caveat in mind, our study has implications for policy. For low-paid workers, the effects on wages are very important. For high-paid workers, distributional concerns are less relevant, and efficiency issues are crucial. Hence, we find support for restrictions on non-competes for low-income workers but not for high-paid employees.

This article summarises 'Non-compete Agreements, Wages and Efficiency: Theory and Evidence from Brazilian Football' by Bernardo Guimaraes, João Paulo Pessoa and Vladimir Ponczek, CEP Discussion Paper No. 1751 (https://cep.lse.ac.uk/pubs/download/dp1751.pdf).

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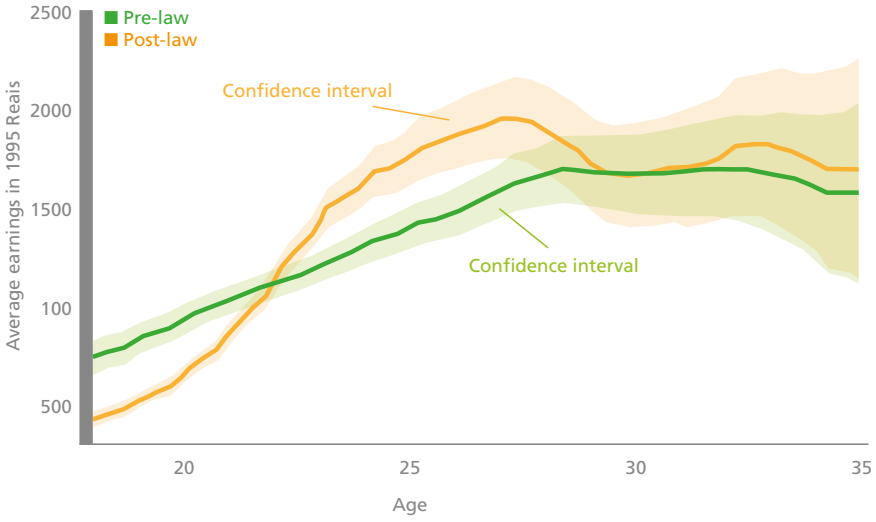
Figure 1.
Wages of Brazilian footballers by age



Notes: The shaded areas are the respective (95%) confidence intervals, which provide a range for the variability of the wage estimates.