

DISTRIBUTION OF INCOME IN THE NATIONAL BASKETBALL ASSOCIATION: CURRENT STATUS AND PROSPECTS**ANASTASIA HALUBKOVA, ALIAKSANDR MATVIENKA****Polotsk State University, Belarus**

The article is devoted to the economy of the NBA in general and the payroll cap rule. In the article the questions of income distribution, financial condition, operating profit, salaries of players and structure of the National Basketball Association are discussed.

NBA players were the first among the members of the American professional sports leagues, who organized a trade union in 1954. In 1983 the first collective agreement in income was signed. It regulates the relations of the players and teams owners as workers and employers. In the same year, with a "payroll cap" – maximum allowable sum of the costs of one club on payouts to players as wages.

For many years before that, all players received roughly the same amount, which is accounted for less than a thousand dollars a month. But the salaries of the players to grew, and in 1964 Wilt Chamberlain became the first player in NBA, who stepped to a hundred thousand dollars for a season. Trying to prove their advantage in the competition, Bill Russell from "Celtics" signed a contract for the sum of 100 thousand and one dollar, and in 1968 Chamberlain puts his signature under the contract to the amount of 750 thousand for three years. During the first season in the League the salary record moved to Karim Abdul-Dgabbary, and since that wages of the "star" players always sought up with ever-increasing speed. Since 1984 player salary has grown almost 10 times. Individual payment and the payroll cap are formed on the basis of the forecasted rating BRI (Basketball Related Income) – total revenue of the NBA in all spheres [3].

The payroll cap in the NBA is soft – there are many officially authorized exceptions when signing contracts with the players and developing an overall picture of the economic situation of the club. The payroll cap can be significantly exceeded. However, for exceeding the owners of the clubs have to pay a special tax (luxury tax) in the amount of 100 % of the excess to the budget of the League. Payment occurs if the costs for salaries exceed a certain fixed level of taxes (70 million dollars in 2011). Money is distributed between other teams – equalizing the financial potential of clubs.

There is also individual players' income limit for both minimum and maximum salaries. For example, the NBA newcomer cannot earn less than 473 thousand dollars a year (in seasons 2010/11), and after 5 years in the League minimum salary exceeds one million dollars. In turn, the maximum salary of a "first-year" and that of a person playing in the NBA the sixth year, is the same and amounts to about 13 million a year. As for veteran (more than 10 seasons) upper salary limit exceeds 19 million [3].

Starting with the 2012/13 season payroll cap is set as 44,74% of the forecast income from the basketball activity and is divided into 30 teams. Under the terms of a new collective agreement payroll cap in the 2012/13 season can not be lower than 58,044 million. This amount has been set for the coming season.

The forecast of revenues from basketball activity set for seasons is the following: 2012/13 – 4,308 billion dollars; 2013/14 – 4,481 billion dollars; 2014/15 – 4,660 billion dollars; 2015/16 – 4,870 billion dollars; 2016/17 – 5,089 billion dollars; 2017/18 – 5,318 billion dollars; 2018/19 – 5,557 billion dollars; 2019/20 – 5,807 billion dollars; 2020/21 – 6,069 billion dollars [1].

Although the distribution of income is not included in the list of issues discussed by the NBA and the players union, and is rather an internal matter between the owners of the teams, the players trade union, can prepare their own decision, based on a greater redistribution of incomes between the owners [2].

Agreement of 2005 was completely in favor of the players and turned expensive for many team owners. To come to a compromise in the new agreement, players tend to give up some benefits received by the last agreement and reduce their secure share in the income of the League (the so-called "basketball profit"). Let us consider the current system of income distribution in the NBA and the way it can be converted to ensure the profitability of all teams in the League. Income distribution is the process of "redistribution" of income between the teams in the League. One form of such distribution may be tax and revenue sharing of all the teams over a certain amount. Drawback of this scheme is that successful teams are forced to subsidize less successful ones, which results in a reduced interest in increasing the profit. In the NBA there is a more limited system of income distribution compared to the NFL or a major baseball league, where it is intended to neutralize the sizes of media markets teams. The NFL also adopted a considerable profit share from attendance (60 % in favour of the home

team, in the NBA hosts get all 100%). In MLB income from local TV companies are under the distribution, as the NBA divides only the income from national television, licensing, digital rights, trade agreements and luxury tax.

Luxury tax is a tax levied on an NBA team, whose payroll exceeds a certain level (70 307 000 dollars in the 2010-2011 season). For every dollar spent on wages above this level team pays 1 dollars tax. The total amount of all the teams is divided by 30 and is distributed between those who do not pay tax. It is important to note, that in fact it is a tax on sports competitiveness of a team, not on profit. Thus those who pay luxury tax may be at a loss. In addition, under the current system all teams spending from 50 to 70 million dollars on salaries are in the same situation, although their competitiveness is different [2].

Independent evaluation of the NBA shows the league, slightly increasing in comparison with other sports, which has unequal distribution of income between teams – but, in its essence, is a healthy, profitable business. Plus, it is not clear how the growth of salaries of players, the very modest compared with the other leagues, and which is directly linked with income League, may be responsible for the current difficulties.

Table 1 reflects the financial situation of the NBA since the season – 1989/90 to 2009/10, according to data prepared by the magazines Forbes and Financial World (some data has not been published, and Forbes left these columns empty) [4].

Table 1 – NBA Financial Performance 1989 – 2010

Year	Revenue			Expenses			Oper.	Oper.
	Tickets	Other	Total	Player	Other	Total	Income	Margin
1989-90	518	516	1,034	420	394	814	220	21,3%
1990-91	578	783	1,361	534	574	1,108	253	18,6%
1991-92	649	923	1,572	686	598	1,284	288	18,3%
1992-93	680	919	1,599	775	522	1,297	302	18,9%
1993-94	775	1,096	1,872	775	677	1,452	419	22,4%
1994-95	826	1,201	2,027	934	520	1,455	572	28,2%
1995-96	950	1,398	2,339	1,097	785	1,882	457	19,6%
1996-97			2,557			2,297	260	10,2%
1997-98								
1998-99			1,611			1,830	(220)	-13,6%
1999-00	937	2,038	2,975	1,773	993	2,766	209	7,0%
2000-01			3,091	1,920	990	2,910	181	5,8%
2001-02			3,260	1,865	1,093	2,958	302	9,3%
2002-03	1,168	2,072	3,240	2,021	1,008	3,029	212	6,5%
2003-04	1,192	2,231	3,422	2,017	1,082	3,099	324	9,5%
2004-05	1,220	2,395	3,615	2,091	1,258	3,349	266	7,4%
2005-06	1,211	2,463	3,674	2,166	1,282	3,448	226	6,1%
2006-07	1,258	2,562	3,820	2,206	1,302	3,508	313	8,2%
2007-08	1,246	2,612	3,859	2,219	1,314	3,533	326	8,5%
2008-09	1,224	2,661	3,885	2,323	1,323	3,646	239	6,1%
2009-10	1,146	2,659	3,805	2,204	1,418	3,622	183	4,8%
5-Year Δ	-6,1%	+11,0%	+5,3%	+5,4%	+12,7%	+8,2%	-31,3%	
10-Year Δ	+22,3%	+30,5%	+27,9%	+24,3%	+42,9%	31,0%	-12,6%	

Source: Forbes and Financial World estimates: all data in millions dollars, figures are adjusted for inflation to January 2010 prices.

The first column is the income from the sale of tickets, data indicate that this area is quite doubtful. Adjusted for inflation, the profit from the sale of tickets for the past five years decreased by 6%, while they increased by 22% compared to the 1999/2000 season. Other income like selling licenses and mediarights increased significantly thanks to a long-term, high-profit television NBA contracts. They increased by 11% over the past five years and by 30% over the last ten years. The main expenses are players' salaries. They followed a similar trajectory to that of the League income, and increased by 24% over ten years, although the growth has slowed a little after the recession. And this is not a coincidence; the current collective agreement on players'

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salaries is directly related to the incomes of the League. In fact, thanks to the little-known clause of the employment contract, the players are obliged to return a part of their salaries in case of exceeding 57% of the League income, which happened during a few latest seasons. The share of income for the NBA players corresponds to those in other major sports leagues and has remained stable for the last decade.

The increase in other expenses (non-player expenses) took the lead over wage growth and accounted for 13% over five years and 43% over ten years. Despite the fact that some of them undoubtedly reflect such things as League investments in digital media or attempts to promote the game internationally, they, nevertheless, have a significant effect when reviewing the final balance. If these costs were the same in 2009 – 10, as they were in 1999 and 2000 (adjusted for inflation), the League now has a record profit. And still, the data by Forbes suggests that the League is profitable. Its operating income – net gains (before taxes and interest on loans are paid) accounted for about 5% in 2009 – 10 and was equal to approximately 7% during the period of the current employment contract. 5 – 7% profit is unlike what other types of business received recently. 500 companies fortune, for example, gave 4% total profit in 2009 and 6,6% in 2010 (both figures include taxes). Entertainment industry profit, where the NBA should be probably attributed, was basically a bit lower.

The owners of the teams crave such significant players' wage cuts – up to 45% of the League income for the reason – that they think they can achieve this, and it will result in a huge sum of money. If wages will be cut down to 45% of revenues, it will save the owners approximately 500 million dollars per year and about 3 billion dollars during the term of 6-year labour agreement. It is hard to calculate the price of the loss during a season in a short or long term, but potential benefits of such a contract are rather high, and this is what the owners are ready to risk. What the owners of the clubs can think first of all is about their position relative to other sports leagues. Baseball and football are milking cows: NFL brought over 1 billion dollars profit (including taxes) in 2009, MLB – about 500 million dollars for the latest season.

Positions taken by the NBA are closer to the NHL. Several owners of the NBA teams also have teams in the NHL, they can see that the lockout in this League was successful, because it turned 228 million dollars in damages for three years before it (according to table 2) in the state of return comparable with the NBA.

Table2 – Financial Performance of Major Sports Leagues

Year	Revenue			Expenses			Oper.	Oper.
	Tickets	Other	Total	Player	Other	Total	Income	Margin
NBA	1,146	2,659	3,805	2,204	1,418	3,622	183	4,8%
NHL	1,214	1,715	2,929	1,602	1,167	2,769	160	5,5%
NFL	1,660	5,919	7,579	4,205	2,333	6,538	1,041	13,7%
MLB	2,279	3,858	6,137	3,299	2,344	5,643	494	8,1%

Source: Forbes estimates: all data in millionsdollars, figures are adjusted for inflation. Date reflects 2009-10 NBA, NHL seasons, 2010 MLB season and 2009 NFL season.

It is not clear, however, whether the salaries of the players are to blame that the NBA was not able to achieve the level of profitability of the NFL. Between 2000 and 2009, the salaries of the players in the NFL averaged 56% of the income of the League, this indicator in MLB was 58% – both close to 57%, the objective, fixed in the current collective agreement for the NBA. Unlike the NHL, which at the time of a lockout, lost money and where the salaries of players took up to 66% of income (they have since declined to about 54%).

Another factor is the distribution of income between the teams: according to Forbes, 17 of the 30 NBA club lost money in the season – 2009/10. Mainly, losses were small and the League, in general, has remained profitable thanks to such successful franchises, as the "Nicks", "Bulls" and "Lakers", which covered 150 million dollars by themselves. In some way the NBA is now in a position, strongly similar to the one in which a major League baseball was before the strike of the season – 1994/95. On the eve of the strike baseball as a whole was profitable, but in 1993 about one third of the team was losing money, according to Forbes, while the other four teams were taking almost half of all League profits.

Decision adopted in baseball – greater income distribution instead of the payroll cap – can suit the NBA: the profit obtained by the Nicks, "Bulls" and "Lakers" covers the losses of all 17 loss-making teams. On the other hand, the NBA resembles baseball and the fact is that, unfortunately, financial results may not always pass the test. In 2001 MLB has published figures showing that it had a loss of 232 million dollars (including taxes and interest on loans); but independent Forbes evaluation showed that the League has received the profit of

127 million. But industrial disputes of that year and those following in 2006 were resolved successfully, with some minor changes in the financial structure, and have since then only profitable years followed.

A similar discrepancy exists between Forbes estimates – 183 million in revenues in the NBA season – 2009/10 and the stated 340 million League losses. The difference between the two figures approximately corresponds to an average annual reduction of contracts, which the NBA reckons on [4].

There are several reasons to doubt the figures provided by the NBA. First, many of the estimated losses of about 250 million dollars is a result of a specific accounting relating to depreciation and debt repayment during the sales teams. Despite the fact that this inclusion is done legally, these losses remain on paper only and do not affect the real movement of funds. Another potential (and also lawful) trick: moving basketball teams revenues on balance of a related businesses, for example, cable networks, and losses in the opposite direction.

Secondly, published by leakage financial statements of one of the teams ("Hornets") is very close to Forbes. And sale prices of some teams rather exceed their figures. In 2010 "Warriors" were sold for 450 million dollars, it's more than 363 million dollars, which, according to Forbes, they cost. Recently "Pistons" were sold for approximately 420 million dollars, which is more expensive than 360 million dollars, announced by Forbes. Last year "Wizards" were bought for 551 million, which is 70% higher than 322 million dollars stated by Forbes. Comparison of the real prices with theoretical ones is not always correct, as sometimes other assets are sold together with a team, but the market for the NBA teams is quite healthy, and that is inconsistent with the fact that the League is called a broken business model.

The third reason for skepticism: the NBA data is not published, although it is known to the union players. If the League expects trust for the figures, it must open the accounts to journalists, economists and fans.

Fourthly, the current labour agreement signed in 1999 and with minor changes extended in 2005, was initially perceived as conducive to the prosperity of the League. Despite the fact that revenues grew at such a pace, as expected, particularly in recent years (after the recession), the salaries of the players were related to income and did not increase faster. The claims of the owners – smart and successful capitalists, willing to control the free market and make decisions – are not credible. There is no reason to believe that the current financial situation of the NBA is between these figures: rather, Forbes underestimates the profit of the League. For example, The Times reported that the income of the League (not profit) accounted for 4,3 billion dollars in 2010/11 season and more than 3,8 billion dollars in 2009 – 10, stated by Forbes magazine. One of the reasons why the assessment of Forbes can be so underestimated: it became more difficult to calculate the revenue from ticket sales, after both teams have started to classify the most expensive of them to the so-called "premium seating", which is not reflected in the available data about the prices for tickets.

Really, the fact that a significant number of teams can not have high profit, even according to Forbes, reflects a lack of competitive balance of the League. Since 1990, only eight teams won the championship, compared with thirteen in each of the other major sports leagues. Of course, this may be due to factors inherent in the structure of basketball, but the current payroll cap only worsens the situation, making player transitions difficult and the possibility of teams to rebuild gets worse. Fans in many cities have little real hope to see their team's victory in a championship in the nearest future.

The fact that the NBA has published financial indicators, sharply contrasting with estimates of such a reputable and not biased organization as Forbes, shows that the owners are going to win the battle for public opinion, a key part of what can lead to a war of words with players lasting for a year [4].

The main goal of the NBA as a business structure should be supporting such an atmosphere in the league, when all the owners of all the teams will be able to create effective teams, receive certain profit and worthy payment for the work of the players. In MLB model of income distribution overprotects teams from small towns, denying their incentive to develop.

In some way the NBA is now in a position, strongly similar to the one in which a major League baseball was before the strike of the season – 1994/95. On the eve of the strike baseball as a whole was profitable, but in 1993 about one third of the team was losing money, according to Forbes, while the other four teams were taking almost half of all League profits. Decision adopted in baseball – greater income distribution instead of the payroll cap – can suit the NBA: the profit obtained by the Nicks, "Bulls" and "Lakers" covers the losses of all 17 loss-making teams. Players have certain reasons to oppose income division – of some of its versions are the equivalent of a tax on wages, but they would rather prefer it, than measures that League, certainly, will try to take.

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This system is the opposite to that adopted in the NBA when the weak teams receive 3 – 4 million from the luxury tax. The ideal model of income distribution is somewhere in the middle between existing systems in the NBA and MLB.

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INNOVATIVE DEVELOPMENT OF OIL REFINERY IN THE REPUBLIC OF BELARUS

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Every company has to provide high level competitive ability of products because of some reasons. Certainly it's about forming stable national economy in the Republic of Belarus. The Republic of Belarus is also integrated in European and international economy groups. There is a necessity to expand foreign economic relations and attract foreign investors.

Innovative development is the development, which is based on new technologies and new equipment. Scientific knowledge is embodied in a new elaborations and introductions and it is driving force of this innovation.

Republic of Belarus doesn't have a lot of minerals and natural energy sources such as gas and oil and that's why it's important for us. Under these conditions almost all of organizations in all economic spheres have to do something innovative. Possibility to export new innovative technologies is crucial too [1].

If you want to step on innovative way you need to know some rules: first of all, it's all about scientific and intellectual potential, which is required to start and develop innovative process. Secondly, you should increase number of members of innovative process constantly. Thirdly, you need a developed institutes system, which is aimed to innovative development, and besides these institutes have to provide effective interaction of all participants of innovative activity. At last innovative development requires innovation of majority of economic entities and individuals, which is united in united national innovative system.

Belarusian model of organization of socially oriented market economy and strategy of sustainable development provides an effective innovative and investment policy. Based on an increasing globalization of world markets in conditions of world financial crisis competitive company should be highly-technological and science intensive [2].

It's impossible to create such companies without a support of domestic as well as foreign scientific and technical potential. Furthermore any country uses its own science and technical potential not in full force. In this context it's necessary:

- to modernize primary economic sectors on the basis of technological updating of manufacture;