

The drain to Spain

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The Harvard Business School approves of Real Madrid

IT IS kick-off time for European soccer. As national league seasons open across a continent that still manages to attract the world's top talent, eyes are turning to the so-called *galácticos*— the superstars joining Spain's La Liga.

Spain is posting some of Europe's worst GDP numbers, yet summer spending on soccer players has been sky high. Leagues in England, Italy and France have lost out. Portugal's Cristiano Ronaldo, Brazil's Kaká, Sweden's Zlatan Ibrahimovic and France's Karim Benzema have all moved to Spain. They have been greeted by 80,000-strong crowds in rock star-style ceremonies.

One man and one tax regime are responsible. After a disastrous last season coloured by corruption scandals, Real Madrid asked its former president, Florentino Pérez, to take his old job back in June. Mr Pérez wheedled huge loans out of Spanish banks (when the common cry is that credit has dried up) and went shopping. Ronaldo, bought from Manchester United, cost a world-record €94m (\$132m). Kaká cost €67m from Italy's AC Milan. They were voted the world's best players over the past two seasons.

Mr Pérez turned Real Madrid into a global brand earlier this decade. He did it by buying the world's most popular stars regardless (some said) of talent. Financially, it worked. They sold merchandise. They brought lucrative advertising and television contracts. The emblem was David Beckham, of England. Real Madrid sold staggering quantities of team jerseys in Britain on the weekend of his signing in 2003. The Pérez way of doing business is a model for clubs in emerging soccer markets such as the United States, Japan and China, says José Luis Nueno, co-author of a Harvard Business School study of Real Madrid.

Income tax also explains Spain's rise. The field is far from flat. Leagues elsewhere must fork out 35-70% more to match the take-home wages of foreign stars in Spain, says Deloitte, a consultancy firm. English fans, whose country is suffering from a weak pound as well as a high top rate of income tax, cry Foul!

Barcelona showed that Spain's growing financial clout is being matched on the field by winning the coveted Europe-wide Champions League last season. England's Premier League remains, however, the world's richest, with revenues of €2.4 billion. Spain, Germany and Italy are €1 billion behind. But England's Premier League spreads its television money wide to create large and medium-sized clubs, whereas Real Madrid and Barcelona grab half La Liga's revenue, creating two sharks in a pool of tiddlers.

Barcelona celebrated by buying Mr Ibrahimovic from Italy's Inter Milan. Its key players, however, are graduates from the club's own training school. They cost little beyond their salaries. Barcelona's triumph spurred arch-rivals Real Madrid into its spending spree. That sets up an interesting clash. Which will win La Liga: cheque-book power, or home-grown talent?