

Free Agency and Collective Bargaining Panel

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We should give credit where credit is due. The settlement that Don negotiated was \$280 million, not \$200 million. These days a couple of million dollars here and there doesn't matter very much. I'm the first academic economist, the first of three who will be addressing you today, and so I thought I should take the liberty to issue a disclaimer for the three of us. That disclaimer comes in the form of an apocryphal story:

Einstein dies and he goes to heaven and the first person he meets says, "Dr. Einstein, it is a pleasure to meet you. My I.Q. is 170." And Einstein says, "Well that's very interesting. Sunday afternoons we can talk about relativity theory." And the next person he meets says, "Dr. Einstein, it's a pleasure to meet you. My I.Q. is 165." And Einstein says, "Great, Monday evenings we can talk about differential equations." The third person he meets says, "Dr. Einstein, it's a pleasure to meet you, my I.Q. is 41." And Einstein says, "Oh, that's very interesting. And what is your forecast for interest rates over the next six months?"

Anyway, I'd like to make a couple of comments about the thought process in baseball collective bargaining and then move on to a few areas of substance, or what I hope is areas of substance.

It seems to me that one fundamental pattern and dilemma that has afflicted collective bargaining in baseball since the early 1970's is that the owners today, 30 of them of course, come to the collective bargaining table with such a diverse and disparate set of interests that it's very hard to actually negotiate a coherent plan for carrying the game forward. I think it's not too

much of a simplification to say that in the process leading up to collective bargaining, the owners get together, they usually have some study committee that tells them what's wrong with the game, they discuss what they want to propose to the Players Association, and they can't agree on anything, except one thing: and that is that they want to smash the players. So they come to the collective bargaining table with some plan either to introduce a salary cap or introduce luxury taxes or some other restrictive practice to affect the labor market.

And that's what confronts the Players Association as each collective bargaining session begins. The two sides are at loggerheads, and they're not negotiating over a coherent plan to reform the game and move it forward. I think it's that pattern that has produced the results of either a lockout or strike each time since the early 1970's.

I don't see anything this time around that is fundamentally different. I think the owners still are coming from very disparate places, the revenue bases that they're dealing with go all the way from, pre-revenue sharing, around \$45 million up to \$200 million. The owners are also very different in the way in which the baseball team fits into their overall portfolio of investments, and hence the strategy and the role of the baseball team in that portfolio is distinct from one owner to another. They simply don't see eye to eye.

The one thing that is different this time around, of course, is that Bud Selig has taken a lesson from David Stern and he's imposed a gag order, so that we don't, or haven't for several months now, heard the owners talking about their different ideas about what needs to be done. So there might be an appearance of greater unity, but I'm very distrustful that there is any greater unity, and so I think that that obstacle will have to be confronted once again.

The title of this session, "Free Agency and Collective Bargaining," I'm not sure what was in the mind of the namer of the session, but there is an inference that can be drawn there that

somehow free agency is part of the problem in collective bargaining rather than part of the solution. I want to make a few comments about that. Free agency, it seems to me, is part of the solution. The first good thing that it does is it tends to lift salaries up to market value. And that's good, number one because it's fair in our market society; that is what we expect people to be paid, their marginal revenue product or their market value. And secondly it's good because in the long run what it does is it promotes a higher quality product. Higher salaries lead to more people preparing themselves in baseball skills with a desire to play Major League Baseball, and it yields a better quality of player.

Insofar as competitive balance is a problem in baseball today, and I am one who believes that it is, I think that free agency actually tends to support balance, greater balance. Why? Number one, and I think the empirical record is quite clear here, since 1976, over the last 25 years there has been greater competitive balance, although I think the last 5 years there has clearly been a deterioration. But over that 25 year period, since the introduction of free agency, there is more competitive balance. And the number one reason is that free agency makes it harder to hold onto a winning team, or more expensive to hold onto a winning team and so it's harder to hold winning teams together, the New York Yankees presently not withstanding. And it also makes it easier for teams on the bottom to rebuild more rapidly.

Number two, the typical owner's profit maximizing strategy, if they believe their team has a chance to win the division and the pennant and the World Series, the typical owner wants to win in a close divisional race. They don't want to win in a runaway fashion. The closer the race, the greater the interest of the fan. But they want to win. So the typical owner tries to assemble a team out of units of talent that will just barely win the division. As salaries go up, as free agency has brought salaries up to their free market level, units of talent become more

expensive, and hence it becomes even more important that owners win by the narrowest of margins. And I think that that tendency has narrowed, has helped to narrow win percentages over the last 25 years. And again the empirical record here is quite clear.

And although it's true, and many people fix on the fact that there is a \$250 million plus contract out there for Alex Rodriguez, although it's true that salaries are going up, and sometimes they look like they're going up astronomically, the salaries overall have not gone up over the last 10 years any faster than revenues. The salary share in baseball's revenues has remained pretty constant in the neighborhood of 52 to 54 percent.

Well, what then is the problem? The owners maintain it's two fold. Number one, they say, and I counsel a very healthy degree of skepticism on this, but they say that two thirds of the teams are losing money. Indeed the Blue-Ribbon report that was referred to earlier said that 90 percent of the teams lost money between 1995 and 1999. So that's problem number one, and problem number two is competitive imbalance.

The owners seem to propose a threefold remedy to these two problems. Number one, they're now calling for contraction. Number two, they want increased revenue sharing. And number three, they want some kind of additional restrictions on the labor market.

Regarding contraction, I think that it's very hard to be anything but cynical. Bud Selig was long an opponent of contraction, something he discovered a couple of months ago and he has become more and more passionate about it as the days go by.

The timing of Selig's embrace of contraction is very curious. It seems to me that what he wants to do is have something else to put on the bargaining table, that he can bargain over. And it also seems to me that with San Diego, and Florida, St. Louis, and a number of other teams trying to get public subsidies for new stadiums, they want to be able to announce to these cities

that if you don't build them we're going to eliminate your team. And that's a way of presumably keeping the fans from getting alienated by the owner pronouncing that "I'm going to move the team," this way you just say that, "I'm going to eliminate it."

So it seems to me that the idea of contraction is politically motivated. But it's politically not workable. The fundamental fact of baseball economics is that baseball is a monopoly, and like any monopoly it limits its output relative to demand and charges a higher price.

Baseball currently has 30 franchises. It also has lots of good markets out there that could be filled, particularly if proper institutional arrangements were made in the economics of baseball. But there are good cities out there: our nation's capital; Portland, Oregon is willing to build a stadium for a new team; Las Vegas; Sacramento, California. There are several other possibilities. The demand for teams from viable cities is greater than the supply of teams. It keeps cities bidding against each other, but it's not good for the consumer. It's not good for people in Portland, Oregon and Northern Virginia and Washington, D.C. who want to be able to experience baseball firsthand, and not just root for some team in another city, and watch it on television, like St. Louis has to do with the NBA. They want to be able to experience it firsthand, and they ought to be able to experience it firsthand. If baseball were not a monopoly, if there were two competitive leagues, you can be sure that the nation's capital would not be bereft of a baseball team for 28 years.

In that circumstance, and in the circumstance that was alluded to earlier of baseball's anti-trust exemption, it's unconscionable for baseball to talk about reducing the number of franchises by two or by four. And they will encounter, I hope, serious political obstacles in Congress. I don't think with the current administration they'll have too much of a problem with

the Justice Department or the FTC, but I would hope they'll have some problems in Congress, looking into baseball's antitrust exemption.

Another thing that's curious is some of the targeted teams that are being talked about. I think they're all rather curious, actually, except for Montreal.

Consider the Florida Marlins. Selig sent a letter to a state senator in Florida that said that if you don't this week pass a bill to help fund a new stadium for the Marlins that we're either going to move the Marlins or we're going to contract them, we're going to eliminate them. Well think about the Marlins. The Marlins are in the 16th largest media market in the country, they're in a stadium that was built, I think, in 1988. It's really not that bad of a stadium. It's properly located just between Ft. Lauderdale and Miami. The real problem there is that you had an owner in 1997, Huizenga, who ruptured the bonds, the growing bonds between the new ball club and the town. Miami is a good town. It's got a very large Cuban population. Those people come from a culture where baseball is the primary sport. It has a relatively high per-capita income and a good corporate base. The problem with Miami is nothing demographic and nothing economic. The problem is that the previous owner, Wayne Huizenga, ruptured the bonds of the community with the team by selling off his World Series players. And then he sold the team to John Henry, and John Henry was able to make a deal where he bought the team for \$150 million, and ended up accepting a stadium deal where he could get very little of the stadium revenue. Most of the luxury box revenue, most of the club seat revenue, the signage revenue and other revenue streams go to Mr. Huizenga, who still owns that stadium. They don't go to John Henry, so John Henry has a problem. The problem in Florida is bad management and a bad stadium contract. It's not a bad stadium and it's not a bad area, but they're talking about contracting it. And that's the

major thing you have to think about whenever the issue of relocation or contraction is talked about.

And then the final impediment to contraction, I think, is the Players Association, and perhaps we'll hear about this from the horse's mouth in a few minutes, but it seems to me that it's not going to be easy to convince the Players Association to accept the contraction of 40 players with each team. The 40-man roster would disappear each time you eliminated a team. So 80 or 160 people would be out of the Union who are now in it. And the Players Association probably could make some challenges on collective bargaining law about contracting the bargaining unit in a multi-employer situation where demand for output is growing, and they could make some challenges around antitrust. So I think that contraction is not going to happen, but it's a political ploy.

I'm just notified that I'm running out of time, and there's a gag order on this panel talking about competitive balance anyway, so I won't say too much about competitive balance but I do want to say one thing and I'll end with this. And that is this: it seems to me that the public discussion about competitive imbalance so far has been characterized by polarized extremes. People are writing articles either saying there is no problem, baseball has always had competitive imbalance, we don't have to do anything about it, or they're writing articles that say this is a cataclysmic event, the world has changed in the last five years, something has to be done drastic right away or baseball is going to implode.

I think reality very clearly lies in between those two extremes and I would hope that some of the discussion can become more balanced and more nuanced. It seems to me that part of the problem in baseball right now is the attempt to deal with competitive imbalance that was agreed to in 1996. The revenue sharing plan that was introduced in that year actually gives an incentive

to teams to bottom-feed. Any team that at the beginning of the year thinks they don't have a chance to win does better economically by shooting for the bottom. And that's actually hurt competitive balance. So I think that's one thing that has to be done.

Another thing I think that has to be done is there needs to be some more revenue sharing, and the amount of revenue sharing, and the terms of revenue sharing, are something that perhaps that you'll hear more about at the next panel, but I just want to make one suggestion about it. I don't think that, even if people wanted to introduce the kind of revenue sharing that the Blue-Ribbon Panel talks about, which is to go up to 50 percent of net local revenue, I don't think either the big-wigs amongst the baseball owners would accept that, nor do I think the Players Association would accept that in most of the forms that are proposed for revenue sharing because it lowers the players' marginal revenue product and will lower their salaries.

I think the best approach is the approach that Alan Greenspan has followed with unemployment and inflation. Basically Greenspan 10 years ago inherited a situation where people thought the natural rate of unemployment was 5.5 or 6 percent and that if you drove the unemployment rate down below that you would accelerate inflation. And Greenspan decided that he was going to feel his way through that question. And he followed expansionary monetary policy and drove down interest rates step-by-step, each time seeing whether or not there was inflation that was triggered off.

Well with competitive imbalance the real issue here is the fan. We're concerned about competitive balance because we're concerned about maintaining and maximizing fan interest. The only way we're going to know about how much competitive balance we need that maximizes, that optimizes the situation in baseball, is going step-by-step. So I think the appropriate way to approach that question is to move with a moderate amount of increase in

revenue sharing. Shoot from the present 20 percent tax up to something like 30 percent, but do it in steps over the years of the next collective bargaining agreement. See where that takes you, and then move from there. That's all I want to say, thank you very much.

Andrew Zimbalist is the Robert A. Woods professor of economics at Smith College, where he has taught since 1974. His books include *Baseball and Billions: A Probing Look Inside the Big Business of Our National Pastime* (Basic Books, 1992), *Sports, Jobs, and Taxes: The Economic Impact of Sports Teams and Stadiums* (Brookings Institution Press, 1997) (co-authored with Roger Noll), and *Unpaid Professionals: Commercialization and Conflict in Big-Time College Sports* (Princeton University Press, 1999).