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STRIVING FOR COMPETITIVE BALANCE IN MAJOR LEAGUE BASEBALL: OPTIMIZATION OF
REVENUE SHARING

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ABSTRACT

This thesis takes a look at competitive balance, one of Major League Baseball's most prominent issues, and how it can be remedied with revenue sharing and other instruments. The thesis starts off by analyzing market sizes to illustrate how competitive balance can be affected by inherent characteristics of a team. This analysis leads into the Blue Ribbon Panel that reported to MLB on this issue. The thesis dissects the findings and recommendations of this panel, and expands upon the analysis after the implementations that altered the revenue sharing program. Pros and cons are both evaluated in regards to the program, and other potential mechanisms are examined. This thesis then culminates into what seems to be the best possible solution to create more competitive balance in America's pastime.

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INTRODUCTION

In the world of sports, the only thing fans hate more than a perennial loser is a team that always wins. All major sports witness teams on both sides of this success spectrum, but because of its unique policies, Major League Baseball (MLB) has far greater polarization amongst its teams. There exist teams like the Pittsburgh Pirates who haven't had a winning season in 17 years. Then there exist teams like the New York Yankees who have made the playoffs 15 of the last 16 seasons, winning 4 World Series titles in a 6-year span from 1995-2000 plus one more in 2009. The Yankees are the prime example of teams I referred to as being hated by general fans because of their abundance of success. These examples, along with more extensive data I will present, illustrate the issue in MLB that is known as competitive balance. Because MLB teams play in a variety of cities, each of which naturally have different sized markets, and there is no salary cap like in other major sports, this is a very large issue. Recently, the concept of revenue sharing has been enacted to attempt to mend the problem, and it is this relatively new aspect of MLB that I will explore. I will examine its workings, successes, failures and potential improvements.

The issues of competitive balance, revenue sharing, and the possibility of other potential solutions are very important right now because of the upcoming expiration of the Collective Bargaining Agreement (CBA). The current CBA is in fact set to expire on December 11, 2011, so a new one will need to be worked out before the commencement of next season. "In 1968, the Major League Baseball Players Association negotiated the first-ever Collective Bargaining Agreement (CBA) in professional sports. It has evolved and strengthened over the years with each generation of players, sometimes at great personal sacrifice, ensuring the continuity of rights for the next" (MLBPA INFO). The CBA is basically

like any bargaining agreement in a workplace. It is essentially a set of agreements between the owners in MLB and the players as represented by the Major League Baseball Players Association (MLBPA). As the new agreement will be structured in the near future, competitive balance and measures that could be taken to promote it will be hot topics. One of the biggest topics relevant here is revenue sharing. Revenue sharing is a component of the current CBA, and what I plan to look at is how these current workings of revenue sharing have succeeded in promoting competitive balance.

In negotiating the CBA, there are many factors that come in to play for both sides. After the conclusion of this season, Michael Weiner will be negotiating the CBA as the representative of the MLBPA. As the representative of the players, he will be arguing for terms that promote higher and more-fair pay for them. The players will of course be in favor of policies that regulate the way management allocates revenue to make sure they are getting paid fair wages. The management on the other hand, will have different views. They will be in favor of policies that facilitate profit maximization. There will also be opinions on the table that seek policies regulating spending to promote competitive balance. This leads into the thick of my thesis.

First I will present information and data on market size and how it affects the success of teams in MLB. I will discuss how to categorize market size as there are different views on what makes a team or city large, mid, or small market. I will then analyze statistical data that illustrates what variation in market size can lead to in terms of competitiveness throughout the league. My goal here is to show that inherent variations in market size create distinct advantages and disadvantages for the clubs in MLB. This will set the stage to argue why something needs to be done. From here I will discuss the Blue

Ribbon Panel of 2000. This panel analyzed exactly the issues of competitive balance I am exploring, and made suggestions such as revenue sharing to the commissioner. A large part of this section will provide the details of the revenue sharing program that has been put in place since. The most extensive part of this discussion will revolve around the local revenue aspect of revenue sharing.

After thoroughly dissecting this material, I will analyze how competitive balance in MLB has been affected since the recommendations of the Blue Ribbon Panel have been enacted. In doing so, I will compare the success of teams before and after revenue sharing was introduced. This will bring me to a point where people will either not be in favor of these revenue sharing programs and think alternate solutions are the way to go, or they will be in favor of what has been done so far and look for improvements upon this base system. For that reason, my next section will analyze the pros and cons of revenue sharing to this point as seen by all parties involved.

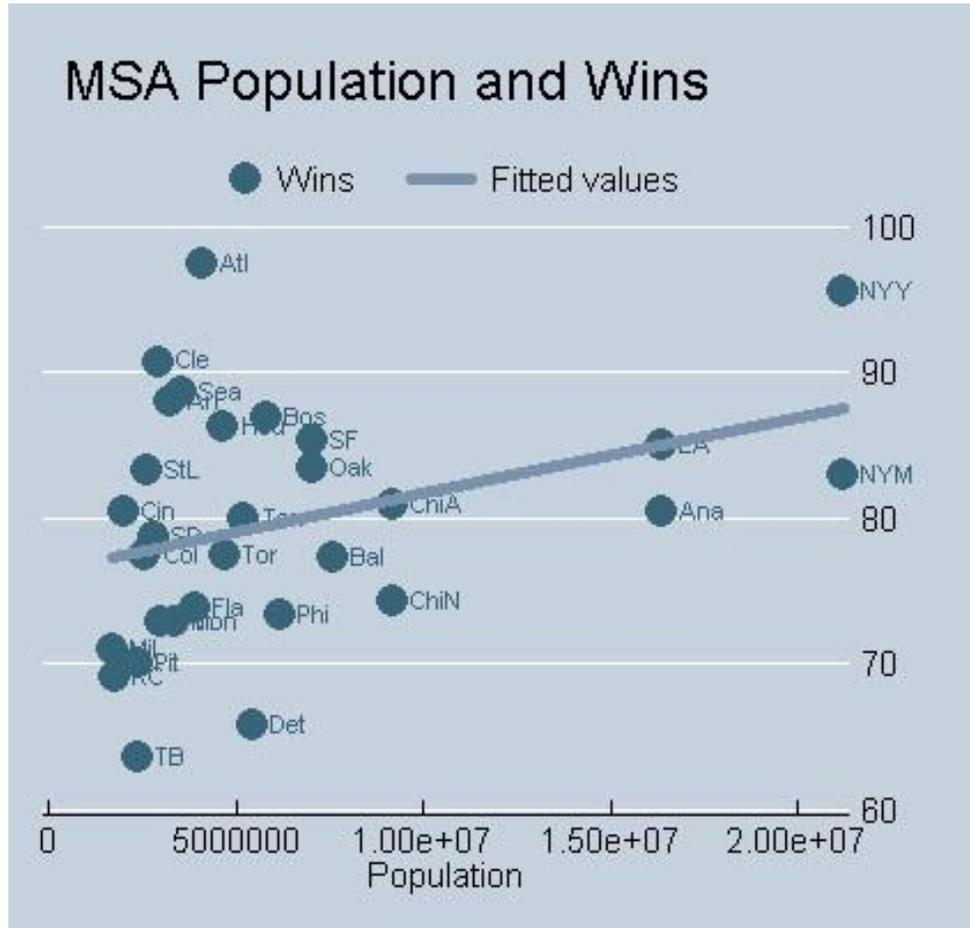
I will also explain and examine the Competitive Balance Tax, also known as the Luxury Tax, as it was enacted along with revenue sharing to promote equality. I will seek to determine what magnitude of effect this component of changes has had overall. From there, I will ultimately claim my personal opinion on what will work best as far as competitive balance goes in pleasing both sides for the upcoming CBA negotiations. I will consider the revenue sharing program I will have analyzed, the competitive balance tax, any other plausible solutions, and combinations of all these ideas.

MARKET SIZE AND SUCCESS IN MLB

Major League Baseball is not exactly a free market system. If the league operated like that, all teams would wind up “clustered in a few large markets. Rather, sports leagues are blends of cooperation and competition – cooperation for the sake of producing satisfactory competitiveness” (Levin et al., 2000, p. 5). This, however, is where MLB is falling short. Sure, teams are spread around the country in a variety of large and small market cities, but the teams are not facing an equal opportunity for success. I will demonstrate why this situation is how it is, all starting with revenue. A team’s success depends on the quality of its players. The quality of a team’s players depends on the amount of money they have to spend. The amount of money a team can spend (since there is no salary cap) depends on its ability to bring in revenues. And to finish this chain, a team’s ability to bring in revenues depends largely on the market they exist in.

Before embarking further on this task, it is pertinent to illustrate the overall effects teams see from the size of markets they play in. One way to examine this is by looking at a regression of team wins versus population of the team’s city. First characterizing market size by population seems to be a fair way of going about this task. After all, the more people in a team’s area, the more people to spend money on their team. This spending by fans can come in the form of ticket sales, concessions, paraphernalia, etc. But the point is, as an area has a greater population, it has more potential supporters to draw from and gain revenues. This briefly suggests the cycle of money and quality players and success that will be mentioned periodically throughout this thesis. One such illustration is done by JC Bradbury in his article “Quantifying the Market Size Advantage in MLB (2004)”. Along with informative discussions, Bradbury presents the following regression model:

Figure 1.



(Bradbury, 2004)

This model is plotting a team's average number of wins from 1995-2002 on the y-axis and its population on the x-axis. The positive correlation shown by the best-fit line suggests that there is some effect on success coming from the population of the city a team plays in. Bradbury notes that the data is statistically significant. That is, the R-squared value indicates correlation and that it is highly unlikely that the results seen in this data are because of chance. He then translates his data for us, so it can be interpreted in terms of wins that population is responsible for. The exact numbers are as follows. "The MSA population regression estimated that every 1.9 million residents generated one extra win

per season. For illustration, the largest market (New York) is expected to win 10 more games than the smallest market (Milwaukee)” (Bradbury, 2004). In fact, The New York Yankees won more than 10 more games than the Milwaukee Brewers. Therefore, it is conceded that while market size does prove to have an effect on a team’s success, it is by no means the only factor. Bradbury concluded his analyses of this chart by looking at how many wins different teams had over others to calculate the percentage of the win disparities that market size accounts for. “During the sample the Yankees won an average of 30 games more than the Kansas City Royals and 24.5 games more than the Milwaukee Brewers. The difference in market size explained 30 to 40 percent of the difference in wins between the top and bottom markets” (Bradbury, 2004). It is vitally important to note here that this presented regression is by no means a true indicator of exact percentages of success that is determined by market size. The analysis is limited with looking solely at the population of a city that a team plays in. However, the correlation mentioned here does serve nicely as an indicator. It suggests that teams’ success is affected by their population, which opens the door to where this thesis is going.

When you think about it, MLB is seeing the same effects that any business sees. As the old business adage goes – location, location, location. In any business, the amount of revenue you can expect to bring in goes down dramatically with a worse location. Businesses that are in an easily accessible hot spot fare much better than their counterparts that are not, all else constant. Therefore, it makes sense that MLB would see similar tendencies. Gross size of population is the aspect of location that would affect revenue for a sports team. As discussed earlier, the more people there are to potentially support the team, the more people who will spend their hard earned dollars on them. And

as you hear in many player and management press conferences after deals are made or not made, “baseball is a business.”

That being said, you must realize that as in all business settings, there is the possibility of management running their business poorly. I feel this is an important thing to note because it helps to explain why the market size data I have presented from JC Bradbury is still very important though it only accounts for 30-40% of the overall disparities seen. It also fits in as an explanation of why the population of a city is the best way to categorize market size. Some could argue you should look at other factors such as revenues generated, but that doesn't account for this idea of skillful management, and a bit of luck. In the conclusion of his piece, Bradbury in fact tackles this exact question of “Why not use team revenue instead of population size to measure market size?” He does so to explain his thinking in constructing his research so that readers can take his data for what it is and not immediately question things such as this angle he took. His answer to this question begins with, “Revenue is related not just to market size, but also to the quality of team management. The problem is determining whether the failure to generate revenue is predetermined by the geographic structure of the league or due to bad business decisions” (Bradbury, 2004).

My take on this is simple. Sheer population is the best measure of market size in this context because of what it represents. Population of a city that a sports team is located in represents the immediate potential consumers in what will contribute to that team's local revenue. And as we will see, local revenue is an enormous part of a team's financial success and therefore their ability to compete for player's services.

Also, I clearly have a take on market size as a factor towards teams' success rates. As the data suggest, there is a strong correlation of some effect from market size on the success of a team in MLB. I agree with Bradbury's analysis that the abilities of a front office will clearly play a large role in success. That is because it is up to those business operations to take advantage of the revenue possibilities inherently given by the population around the team. There may exist a large market team with bad business operations, as recently seen by the New York Mets, or a small-market team with great business operations as seen by the recent success of teams such as the Cincinnati Reds and the Tampa Bay Rays. I believe, however, that sheer population (and therefore potential contributors to a team's revenue intake) is more than the 30-40% that Bradbury argues at. I believe this because of the cyclical nature of revenue, personnel, success and again revenue. The numbers Bradbury puts forth are solely based on a regression model. This takes averages and compares them to calculate the percentage. It does not, however, take into account the accumulated benefit that his original numbers suggest. His original numbers of 30-40% are from population alone. But when you take those numbers over time, they are essentially the basis of the benefits teams may see. Because of that initial potential revenue source that is the population, management is capable of generating more and more revenue. This is done by the cycle that's being discussed. The initial revenue is what buys players. The players are essentially the product that consumers are buying. The better the product, the more sales any business will see. Therefore, as a team purchases the services of better players, and their team as a whole improves, more people want to spend their money on the team. This spending mostly contributes to a team's local revenues. This includes ticket sales, and then all the consequent spending from going to a game. It also includes higher

local TV and radio ratings because of the higher interest in a successful team that gives teams leverage in negotiating their local television and radio deals.

In keeping with the MLB is a business analogy, the initial revenue possibilities that come from a location's population are much like the principal of an investment. When you can see a certain return on an investment, you will benefit more from a larger initial investment. In other words, theoretically if two teams were identical and took their revenues and made identical decisions and performed identical operations, the team that had the larger initial revenue base will see revenue growth at a larger pace.

That is why revenue sharing has become necessary. But just like any solution, it can always be improved upon. A start is a good thing, but you need to see what effects that solution has, and fill the holes. Keep intact the parts of a solution that work, and adjust the aspects that aren't cultivating the desired effects. Therefore, if changes aren't made to the revenue sharing program, things will continue as they are.

REVENUE SHARING AND THE BLUE RIBBON PANEL OF 2000

To begin this analysis, it is important to see how MLB teams generate revenues. There are two main components of any team's revenue. The first is known as central fund revenue, which is divided evenly among all 30 teams. This pool of revenue consists of all factors that are run directly by Major League Baseball. These factors include national television and radio deals because the broadcasters who sign contracts with MLB choose which games they want to air. Therefore, the broadcasters such as FOX or ESPN will obviously choose games that showcase two popular teams in order to receive high ratings. So, to make sure teams such as the Yankees and Red Sox do not reap far superior revenue

from this source, MLB lumps all these deals into the Central Fund revenue. This pool also consists of Major League Baseball Advanced Media (including MLB.TV), sales on all merchandise, and the MLB Network. For the same reasons, this prevents more popular teams (largely due to market size) from taking in a larger piece of the pie. As I noted above, all 30 teams split this money evenly. In fact, in 2009 “each of the 30 clubs got a check for about \$30 million” (Brown, 2010). To hammer home what central fund revenue really is, that means that in 2009, MLB raked in over \$900 million from national television and radio deals, Major League Baseball Advanced Media, merchandise sales, and the MLB Network. After all administrative costs were paid for, there was about \$900 million left to split among the 30 clubs that make up MLB.

The other portion of a team’s revenue comes from local revenues. Local revenues are a far greater source of a team’s revenue, as they make up about 70-80% of total revenue. These local revenues are made up of a combination of “gate receipts, local television, radio and cable rights fees, ballpark concessions, advertising and publications, parking, suite rentals, postseason and spring training” (Levin et al., 2000, p. 2). By the sheer nature of the components of local revenues, it is easy to see that teams that attract more fans to attend and watch games will receive larger revenues. Because of the nature of fanhood, people are more likely to be interested in a winning baseball club. And when they are interested, fans attend more games, directly increasing gate receipts. When gate receipts go up, it logically follows that parking, suite rentals, and concessions go up. As more fans pack into the stadium 81+ times a year, outside firms are willing to pay higher amounts for advertising space. And while the team’s popularity soars because of success, there is generally a large spike in television and radio ratings for all games (home and away). Therefore, the team

has the leverage to negotiate more lucrative TV and radio deals with local broadcasters.

The next logical step in this process is to realize a team's success is strongly dependent on the quality of players it can field. Because there is no salary cap in MLB, the best free agents often end up playing for the team that can afford to offer them the highest salary. So to assemble the best team, it is natural that you must have money to spend on free agents and to lock up your young stars in lucrative deals. This ability to spend money takes us right back to revenues. It is the teams with the largest revenues that can buy the best players that lead to the most success, which generates even higher revenues. It is a perpetuating cycle that MLB realized was becoming a large problem in its league. In fact, in 2000, the commissioner of Baseball, Bud Selig, appointed a Blue Ribbon Panel to look into this exact issue that had led to severe imbalance. In July of that year, the panel of Richard C. Levin, George J. Mitchell, Paul A. Volcker, and George F. Will issued a report to commissioner Selig that examined information from MLB during 1995-1999. I will analyze these data to illustrate where the league stood in terms of competitive balance then, so I can later compare it to where the league stands now after the changes that have been made to MLB's revenue sharing program.

First, the panel looked into the disparities in revenue that can be seen throughout the league. The majority of these disparities that they talk about stem from differences in local revenue. In their words, local revenues "are the largest single component of most clubs' annual revenues" (Levin et al., 2000, p. 2). From here, the panel started to compare local revenues and payrolls of teams. For starters, they looked at the local revenues generated by the teams with the largest and smallest payrolls. They found that "The ratio between the highest and lowest club's local revenues has more than doubled in just five years, from

5.5:1 in 1995 to 14.7:1 in 1999. The average ratio between the three clubs with the highest local revenue and the three with the lowest has risen from 4.1:1 to 7:1” (Levin et al., 2000, p. 2). These ratios mathematically indicate that the rates at which revenues are growing are far greater for the already high-revenue teams compared to the low-revenue teams. In other words, the gap that existed between high-revenue teams and low-revenue teams has grown over time.

As can be seen by these numbers, the disparity between growth of local revenues for the highest and lowest-revenue team is much greater than the disparity between growth of local revenues for the three highest and three lowest-revenue teams. This suggests that there is a team on one end of the spectrum that is an outlier. Another piece of data that the panel gives illustrates to us that it is the highest-revenue team that is the outlier.

Presumably it is the Yankees, but the panel does not identify the team. Regardless, it is what they do report about the mystery team that illustrates the great disparity in revenue.

“In 1999, one club’s local revenues exceeded by approximately \$11 million the combined local revenues of six other clubs” (Levin et al., 2000, p. 2).

For a lot of the remainder of the report the panel made, they split all of the teams into four groups labeled Quartile I-IV. Quartile I consisted of the fourth of the teams with the highest payrolls, and Quartile IV consisted of the fourth with the lowest payrolls. They claim that this was for analytical purposes. Clearly, it lessens the effects of any outliers, and makes it easier to compare the general high against low. The ultimate goal here is to analyze the success of teams and see how revenues affect it. Therefore, this method of quartiles is logical because it is unrealistic to assume all the success will be found by the one team with the highest revenues. But it is realistic to hypothesize that the group of

teams with higher revenues and payrolls will find success with more regularity than those teams with lower revenues and payrolls. So, it is necessary to collect data comparing the higher groups with the lower groups.

It is important to explain here where the cutoff is for each quartile. In the years this panel examined, there are two sets of quartile breakdowns. From 1995-1997, there were twenty-eight teams in MLB. Therefore, each quartile consisted of 7 teams. In 1998, the Arizona Diamondbacks and Tampa Bay Rays joined the National League and American League, respectively. This increased the number of clubs to 30, which clearly doesn't divide equally into four quartiles. The panel altered their groupings in years 1998 and 1999 so that Quartiles I and III consist of eight teams, and Quartiles II and IV still hold seven teams. "Since 1995, local revenues have increased an average of \$54 million for clubs in revenue Quartile I (the highest-revenue clubs), but local revenues have increased an average of only \$8 million for clubs in Quartile IV" (Levin et al., 2000, p. 2). The panel then takes on the Central Fund revenue and shows how although it appears very positive, it is actually just illustrating how much the disparity in local revenues has grown. They first note the fact that "Central Fund revenues ... have more than doubled since 1995..." (Levin et al., 2000, p. 2). Clearly, this by itself is a positive for MLB. However, it is what they report next that illuminates the problem MLB is facing. "They [Central Fund revenues] now are a smaller percentage of most clubs' revenue than in 1995" (Levin et al., 2000, p. 2). This fact indirectly states that local revenues became a greater percentage of most clubs' total revenue from 1995 to 1999.

As for total revenues, there were some eye-opening statistics presented in this report as well. "Between 1995 and 1999, the difference in total revenue between the average club

in Quartile I and the average club in Quartile IV soared from \$48 million to \$71 million” (Levin et al., 2000, p. 2). As previously stated, this ultimately speaks to the growing disparity in local revenues between the higher and lower-revenue clubs. As I move on to this disparity’s effect on payroll, and ultimately success, I offer one last astonishing statistic related to teams’ revenues that the panel provided. “In 1999, the sum of the revenues of the top three revenue clubs exceeded the combined revenues of all the clubs in Quartile IV by \$33 million” (Levin et al., 2000, p. 2).

With MLB’s structure, the revenue disparity unsurprisingly leads to great disparity in payrolls. This happens and is a problem “because all teams participate in the same national labor market. MLB does not have a salary cap; therefore, a team can spend any amount they wish on their payroll. The teams with the most revenue have the most available funds and are therefore able to make offers that cannot be matched by lower revenue teams” (Elanjian and Pachamano, 2009).

The panel moved on from revenue analysis to offer some shocking statistics that illustrate the resulting great disparity in payrolls in MLB. In 1999, they claim that the team with the highest payroll had one that exceeded the value of the lowest five payrolls added together. Furthermore, they say that adding the second highest payroll to that of the highest in 1999, you reach a value that exceeds the sum of all of Quartile IV’s payrolls by \$30 million. These numbers show the disparity as of 1999. They also offered statistics that show the growing trends of disparity from 1995-1999. “Between 1995 and 1999, the average payroll of clubs in the top revenue quartile increased \$28 million, while the average payroll of clubs in the bottom revenue quartile increased only \$4 million” (Levin et al., 2000, p. 3). Lastly, to illustrate this growing trend, I present one final statistic before

talking about the success of all these teams. “The average payroll of clubs in payroll Quartile I was \$32 million (70 percent) larger in 1999 than in 1995, but the average payroll in Quartile IV increased only \$2 million (13 percent)” (Levin et al., 2000, p. 3).

As I have progressed through this analysis, I’ve moved from popularity, which leads to revenues, which leads to payrolls, and now I’ve come to the final step of success. The whole point here is to illustrate how unequal revenues because of unfair differences that are out of the club’s hands (i.e., the market they play in) lead to more regular success by the larger market and higher revenue teams. The following table was provided at the very beginning of the Blue Ribbon Panel’s report to Bud Selig.

Table 1: Division Series (“DS”) and League Championship Series (“LCS”), and World Series Games Won by Payroll Quartile, 1995-1999

	Quartile I			Quartile II			Quartile III			Quartile IV			Total Games Won
	Avg Payroll	DS & LCS	W-S	Avg Payroll	DS & LCS	W-S	Avg Payroll	DS & LCS	W-S	Avg Payroll	DS & LCS	W-S	
1995	\$46.4	19	6	\$36.9	6	0	\$31.4	0	0	\$17.8	0	0	31
1996	50.0	19	6	37.9	7	0	28.1	0	0	18.2	0	0	32
1997	57.4	26	7	45.3	1	0	35.4	0	0	21.5	0	0	34
1998	64.0	18	4	50.1	8	0	35.4	0	0	18.0	0	0	30
1999	78.8	25	4	55.7	2	0	41.0	0	0	20.2	0	0	31
Total		107	27		24	0		0	0		0	0	158

Note: All dollar figures are in millions.

Source: Levin et al., 2000, p. i

As the title indicates, this table shows the number of World Series (W-S), League Championship Series (LCS), and Division Series (DS) games won by teams from each quartile. The first thing that can be noticed is the fact that no team from Quartile III or IV (the bottom half of the league in terms of payroll) won even 1 of the 158 postseason games played in these 5 years. All the teams that made up Quartile II combined to win just 24 of the 131 Division and League Championship Series games, while the teams from Quartile I

won the remaining 107. As for World Series games, all 27 of them that were played between 1995 and 1999 were won by a team from Quartile I. Only four of those games even included a team from Quartile II. That was the San Diego Padres in 1998, and they lost all 4 games (Levin et al., 2000, p. 4). Too many teams and their fans had been entering spring training knowing they realistically had no shot of making the playoffs or winning a championship.

EFFECTIVENESS OF CURRENT REVENUE SHARING PROGRAM

“On November 26, 1996, following an impassioned appeal by commissioner Bud Selig, major league owners finally voted for a new general agreement with their players ... Under the agreement, baseball would institute a new form of revenue sharing, one in which the wealthier teams would pay out tens of millions of dollars to those in smaller markets” (Ward and Burns, 2010, p. 500). After the Blue Ribbon Panel presented their findings and recommendations to Bud Selig, the revenue sharing program was revamped in 2000. What I aim to do in this section is analyze how this revamping has affected competitive balance in MLB. After all, that is exactly what the implementation of the upgraded revenue sharing was looking to achieve. In order to see if the new plan had an effect, I decided to look at success of teams from different parts of the payroll spectrum in the years 2000-2010. Once that information is compiled into a table similar to the table found in the Blue Ribbon Report for the years 1995-1999, I can compare the distribution of winning. Using *USA Today's* annual team payroll data, and MLB.com's listed records of playoff results, I generated the following table:

	Quartile I			Quartile II			Quartile III			Quartile IV			Tot.
	Avg. Payroll	DS & LCS	W-S	Avg. Payroll	DS & LCS	W-S	Avg. Payroll	DS & LCS	W-S	Avg. Payroll	DS & LCS	W-S	Games Won
2000	83.2	16	6	63.2	9	0	48.1	1	0	26.0	0	0	32
2001	97.9	20	7	72.3	6	0	53.7	0	0	34.9	2	0	35
2002	100.8	3	0	72.8	18	7	53.7	0	0	39.9	6	0	34
2003	107.0	15	2	76.9	7	0	55.2	3	0	41.8	7	4	38
2004	109.4	16	4	74.7	13	0	52.4	1	0	36.2	0	0	34
2005	112.1	11	0	78.8	15	4	58.0	0	0	40.0	0	0	30
2006	113.4	10	0	85.8	11	5	64.9	4	0	42.8	0	0	30
2007	122.6	8	4	90.5	0	0	71.2	6	0	42.2	10	0	28
2008	136.9	12	0	97.9	8	4	71.6	0	0	47.5	7	1	32
2009	131.5	19	6	92.1	4	0	73.6	1	0	54.4	0	0	30
2010	140.6	10	0	92.6	8	4	73.2	2	0	51.2	7	1	32
Total		140	29		99	24		18	0		39	6	355

Note: All dollar figures are in millions

Sources: MLB Salaries by Team, Division Series Overview

Just as the Blue Ribbon Report did, I broke the teams into four quartiles. I kept it consistent, with the approach of the Report with Quartile I and Quartile III having eight teams, and Quartile II and Quartile IV having seven teams. I cross-referenced the two documents, and recorded how many Division games, League Championship games and World Series Games were won by the teams from each quartile.

In comparing these data with the data from years 1995-1999, I was looking to see if the years following the new and hopefully improved revenue sharing system resulted in a wider variety of payroll level teams finding success throughout the playoffs. That alone would be a positive outcome of revenue sharing. Looking at the table, it is easy to see that this is in fact the case. Whereas zero DS and LCS games were won by teams from Quartile III or IV in 1995-1999, 57 of them were won by the corresponding clubs in the years 2000-2010. On top of that, 6 World Series games were won by teams from Quartile IV, including a World Series championship by the Florida Marlins in 2003. In the previous data, all World Series games were won by teams from Quartile I. In the more recent years, Quartile I only

won 5 more World Series games than Quartile II (29 for Quartile I as compared to 24 for Quartile II).

To compare these two data sets, it is important to look at percentages because the first set only consists of 5 years versus the 11 years that the second data set takes into account. In the years prior to the revenue sharing changes, teams atop the payroll lists won 84.8% of all playoff games played over that span. In the more recent years, Quartile I teams account for only 47.6% of the playoff games played from 2000-2010. Furthermore, Quartiles III and IV combined to win 17.7% of all playoff games after the new revenue sharing, which is 17.7 more percentage points than their 1995-1999 counterparts won. These numbers appear to be good support for those in favor of the revenue sharing program. It is argued that the more balanced revenue numbers that are derived from the revenue sharing program are largely responsible for this observed increase in wins by lower payroll (and arguably revenue) MLB clubs. When looking at these data in comparison to the earlier set, it is hard to see a legitimate argument for why this revenue sharing is a bad thing. After all, MLB is a business, and the objective of any business is to be profitable. In this scenario, to be profitable, a team must attract fans. As previously discussed, more fans are attracted by more successful teams. Therefore, the objective of any MLB club is to win as many games as possible, especially playoff games and ultimately the World Series. Putting it that way, it appears from these data sets that all parties involved are winners, except of course the large market teams.

Fans are happier, as more and more are not writing off their chances of success before the season even starts. MLB is happier as they see a larger fan base which generates greater gross profits across the board. Owners of smaller market teams are happier, as they

are receiving revenue sharing dollars to offset the inherent markets they operate in which they can then use to improve their club.

Notice I used the word “hard” in referring to finding a legitimate argument against the revenue sharing policies, not “impossible.” Also, I used the word “can” when referring to what small market owners do with their revenue sharing dollars. Eliminating that word would have implied that small-market owners always put this money directly into the team they put on the field. Likewise, using the word “impossible” would have implied that there exists no counter-argument. The reality is that neither is the case, and that is where that last stakeholder of MLB differs from the rest already listed. The large-market owners feel slighted by the revenue sharing program. These data sets I’m analyzing provide offsetting suggestions of whether these large-market owners have a point.

Whether a team reinvests its revenue sharing money directly into its major league team is an indication of how much they value winning. There is no other way to win than to field the best team possible, and that costs money due to free agency. Therefore, it is interesting to look at payrolls of small-market teams that would have benefited from revenue sharing before and after successful playoff runs. The first team of interest here is the Florida Marlins in 2003. In that year, the Marlins had a payroll of \$48.75 million. They went on to beat the New York Yankees in the World Series, reaching the ultimate level of success. It should then follow that the team looked to spend at least as much money, if not more, to keep its team together and even add improvements if it valued winning most. To the contrary, the Florida Marlins actually decreased their payroll the following year. Their opening day payroll in 2004 was \$42,143,042, a 13.5% drop from their World Series winning team. This case does not support the notion that all teams value winning over

money. In their case, the Marlins had success, but knew they could still be more profitable from going back to their losing ways and collecting revenue sharing money instead of hanging onto their stars and attempting to build a dynasty like large market teams have done.

While the case of the 2003-2004 Marlins illustrates the complaint of the large-market owners, the Tampa Bay Rays of 2008-2009 do the opposite, weakening this argument. One of the other World Series wins coming from Quartile IV that is illustrated in my table is from the 2008 Tampa Bay Rays when they fell to the Philadelphia Phillies 4 games to 1. Through that playoff run, the Rays won 8 games, which is of course 8 more than all Quartile III and IV teams from years 1995-1999. During that season, the Rays were owners of a \$43,820,597 payroll. If the Rays were to support the large-market team's argument, they would have acted similarly to the 2003 Marlins. The data would show a drop in payroll in the following year, as the team chose to not spend to lock up and hold on to key players who got them so close to their first World Series Title. In reality, the opposite happened. The Tampa Bay Rays' payroll in 2009 was \$61,313,034, or a 39.9% increase from the World Series runner-up team.

All in all, I feel these data express a successful impact of the new revenue sharing program developed from the Blue Ribbon Panel's recommendations. The ultimate determinant in competitive balance is whether the league is seeing success from teams at various financial levels. The amount of wins throughout the playoffs of the 11 seasons following the new revenue sharing regulations from teams on the bottom end in terms of revenue and therefore payroll serves as that evidence. It seems very probably from this

information that revenue sharing is at least helping the notorious problem of competitive balance in our beloved pastime.

PROS AND CONS OF REVENUE SHARING

Revenue sharing began in Major League Baseball (MLB) in 1996. It has been tweaked and altered several times, and is now currently executed in the manner that was devised in 2002. The description of the active revenue sharing formula was renewed from that 2002 development, and stands as is through the 2011 season. The issue that comes with this method of revenue sharing is whether or not it truly promotes competitive balance. In the minds of large market teams and their ownership, small market teams are reaping the financial benefits of the system, without the desired outcome being achieved. In order to see this desired outcome of competitive balance come to fruition, the design of the revenue sharing plan calls for small market teams to use the money they receive to improve the performance of the team they put on the field. This is where the large market owners see a problem, and strongly disagree with the system. Many of the large market owners claim that the owners of small market teams are able to pocket their revenue sharing money and gain it all as profit, and that many of them do just that.

A strong example of what these large market owners claim can be seen by examining the Tampa Bay Rays. In 2006, the Rays fielded a team whose payroll was at \$35 million. In the offseason between 2006 and 2007, moves were made to change personnel and restructure contracts so that the 2007 payroll was different. This 2007 payroll was lower than that in 2006, sitting at \$24 million. If revenue sharing weren't such a great concern right now, that fluctuation in payroll wouldn't be such a big deal. Teams' payrolls

will regularly fluctuate from year to year depending on the current state of their organization as far as realistic ability to compete. In other words, if a team is waiting on young talent to develop, and they aren't quite there, it doesn't make sense to go out and splurge on a top free agent that will only allow the team to fight for third place instead of fourth. So in this case, payroll may drop until the homegrown talent has matured, and other pieces can be added via free agency to build a team that can compete for a division, pennant, and World Series title. But revenue sharing is the debate at hand, so it is eye opening (especially to large market teams) that the Rays payroll dropped by \$11 million when they received \$30 million in revenue share money. This illustrates the existence of loopholes that opponents of the revenue sharing program claim small market teams take advantage of.

The Kansas City Royals are another organization that has long been in the cellar of MLB as far as market share and performance goes. And so not surprisingly, they also prove to be a strong example of the complaints large market owners express. Between the years of 2000 and 2009, ticket sales for the Royals have gone down by 18% (Elanjian and Pachamano, 2009). This drop in ticket sales proves to be a large hit in the local revenue the Royals bring in. The organization not only sees losses in revenue from the decrease in ticket sales, but the smaller attendance generates less revenue from concessions, suite rentals, parking, and other aspects of local revenue. So if everything else were held in check, one would logically assume that the value of the organization would drop considerably. However, the exact opposite has happened in the case of Kansas City. The valuation of the team has in fact gone up from \$96 million to \$282 million (Elanjian and Pachamano, 2009), a 193.75% increase. Again, if revenue sharing were not being

discussed here, this issue would be quite perplexing. However, it is revenue sharing that seems to be the reason these two characteristics of the Royals' organization can coexist. This illustrates the claim large market owners are making, because it shows where the organization could be increasing profits from in order to see such a large valuation increase given their circumstances. While the Royals have seen revenue sharing proceeds double between the years of 2002 and 2009, their payroll has only experienced an annual increase of 6% (Elanjian and Pachamano, 2009). This leaves a lot of money received by the Royals from rich teams that is not put directly back into their team. And large market owners are claiming the ownership of teams like the Royals is pocketing much of those proceeds as pure profit. And so as the organization experiences higher operating profits, the value of the club goes up.

On top of issues that large market owners have with the ways around the system they believe smaller market owners are using, they believe that it is too much sharing, period. The fact is that this local revenue dispersion is only part of the revenue sharing story. In the minds of owners such as the late George Steinbrenner of the New York Yankees and John Henry of the Boston Red Sox, the central fund sharing is a large enough portion that the large market teams share. Their case has validity in the sense that this portion of revenue sharing is truly benefitting small market teams by letting them free ride on the money large market teams bring into the picture.

Consider those aspects of central fund revenue that are listed. Anything media related, such as national television and radio deals or Major League Baseball Advanced Media (which include MLB.TV) gains a lot of popularity by the fan bases of large market teams. The league can get more revenue from TV and radio deals when they schedule

games such as the Yankees vs. the Red Sox because the ratings are so high due to the strong fan bases each team has. This difference in central fund revenue brought in by teams like the Yankees and Red Sox compared to teams like the Rays and Royals is strongly illustrated in the case of merchandise sales. Teams such as the Yankees, Red Sox, Mets, Dodgers and Cubs are responsible for a far greater proportion of merchandise sales than the proportion of MLB the 5 teams consist of. However, all these proceeds go into a central fund run by MLB. Under the current Collective Bargaining Agreement, this money is split equally among the 30 MLB teams, and the Steinbrenners of the world feel this is already an unfair system. No businessman is going to be in favor of sharing some of their profits they feel they deserve, but it especially causes an issue when they feel the recipients of the money are not doing with it what the rules state they must.

Small market ownership tells a different story. Their story is an explanation of how they are following the rules even though it may appear differently. The phrase in the CBA that teams must use revenue sharing money to improve their team on the field can be interpreted quite loosely. It does not specifically state that any team that receives funds through the program must then go out and spend it on free agents who have hit the open market. While that would presumably fit the description of “improving the quality of what you put on the field,” it isn’t necessarily the only way, or most efficient way, that a team can adhere to those guidelines. Rob Manfred, the executive vice president of labor relations for MLB, expressed this notion.

Clubs at low-revenue spectrum have always gone through cycles when they develop with less expensive young talent, in a way like Tampa Bay did, that moves them along to field a very competitive team. When you’re at that low-revenue period,

you're still going to be getting your revenue sharing. Clubs can then position themselves for a much higher player payroll when that roster matures... (Brown, 2010).

While small-market teams use this reasoning, large-market owners argue it is just their excuse so that they can keep pocketing the funds. They point out that some teams never reach the competitive portion of the cycle they claim they are going through, which is evidence that they are not productively utilizing their revenue-sharing dollars as the rules dictate. John Henry, owner of the Boston Red Sox, expressed these feelings in a statement to the *Boston Globe* just last year. "Over a billion dollars has been paid to seven chronically uncompetitive teams, five of whom have had baseball's highest operation profits. Who, except these teams, can think this is a good idea?" (Brown, 2010).

As a whole, small-mid market teams point to the variety of teams having success as evidence why all of baseball should believe revenue sharing is a good idea. In the 2000s, 9 different teams have won the World Series, seeing only the Yankees and Red Sox win twice during that span. Never during that span, however, has a team repeated back-to-back years, and only the Phillies and Yankees have even made it to the World Series back-to-back. And in these years baseball has seen three smaller market teams – the Florida Marlins, the Arizona Diamondbacks, and the San Francisco Giants – win the World Series. The Texas Rangers, San Francisco Giants in another year, and the Houston Astros (all smaller market teams) have all made World Series appearances in the 2000s. All these occurrences seem to lend support to the case that proponents of the revenue sharing program present. It is also interesting to compare the number of champions across the major sports. The NHL and

NFL both have seen 8 different champions during the time MLB has seen 9, and the NBA has seen just 5.

Specifically looking at baseball, revenue-sharing proponents look to draw further support from overall playoff participation and the nature of baseball. During the time period referenced here, 25 of the 30 MLB teams have reached the playoffs at some point. Only the Blue Jays, Orioles, Royals, Pirates, and Nationals (previously the Expos) have yet to see October baseball this century (Brown, 2010). And as evidenced by the variety of teams that have won the World Series, once a club reaches the playoffs, anything can happen. Baseball is a unique game, especially how pitching can truly dominate a game or series, and it really matters who is hot at the right time. In fact, only 3 times during the time period in question did the team with the best record actually win the World Series (Berri, 2006). Therefore, small market teams view an increase in playoff appearances as a win for revenue sharing, because then anything can happen, and the competitive balance is increasing.

Clearly, the opposing sides will twist the evidence to make it fit as a support for their opinions. Large market teams, and those who share their stance on revenue sharing, dispute the notions by looking not at the instances where small market teams succeeded in at least getting to the post season, but at the regularity with which large market teams make it beyond the first two rounds to the World Series, as compared to the years prior to revenue sharing. As of 2007, "Since revenue sharing began, at least one team from each of the big four markets – New York, Los Angeles, Chicago and Boston – has appeared in every World Series except 2006. In the 10 years before 1998, in contrast, only two series included one of those big-market teams" (Lewis, 2007). While the earlier evidence that advocates of

the revenue sharing system point out suggests the competitiveness is increasing, this evidence does the opposite. This side that the opponents are on alters the lens you view the evidence with and looks at baseball's nature of "it matters who is hot at the right time" not as a plus for revenue sharing like the smaller market teams do, but as an explanation of why large market teams don't always win. But they are consistently in the position to win the ultimate prize, and even more so under the current revenue sharing program than the decade prior. What has allowed for this trend to develop seems to be the ultimate problem that large market ownership has.

The reason behind the increased success of large market teams since the installment of revenue sharing speaks directly to the accusation that small market owners are pocketing the proceeds they receive through the program. The revenue sharing program, of course, is designed to attempt to make the teams who don't have the luxury of being in a large market to be able to compete with those that do. So, money is transferred from rich teams to poor ones, but a closer look shows this may be leading to the opposite of the desired outcome. While the intentions are to give small market teams more money to field a better team with, it is argued that the system is actually providing conflicting incentives.

The problem with the incentives the current system of revenue sharing provides is that transfers are based on local revenues. If teams that receive money from revenue sharing actually used it to increase their clubs' competitiveness, more fans would show up to games. The increase in attendance would lead to an increase in local revenue. Thus, teams with lower local revenues may consciously choose not to invest into their payroll, as doing so would decrease the amount of revenue sharing proceeds they would receive. (Elanjian and Pachamano, 2009)

This situation, in the eyes of the businessmen who are the owners of large market teams, is much like taxation issues. Many rich people in this country share the belief that it is unfair for them to be taxed more in order to benefit those with less money, just because they have it. They feel it is something they earned, and it isn't fair to have to share it with others who didn't work to get where the rich are. In MLB, owners of rich teams feel it is unfair to have to share their revenues with teams that aren't working to get to where the rich, more successful teams are. They are simply being freeloaders in the eyes of men like Steinbrenner and Henry.

Michael Lewis also presents an opinion on the incentives issue derived through these revenue sharing mechanisms. He is referencing how large and small market teams are affected differently, because small market teams could benefit more from revenue sharing dollars than actually winning and building up their own revenues. Therefore, different clubs value winning games at different dollar amounts.

The trouble is that the market size of a baseball team has a significant effect on return on investment, Lewis argues. A team in a market with 10 million people, for example, behaves as if each victory were worth \$1.2 million. After the implementation of revenue sharing, small market teams have acted as if each victory was worth about \$350,000. "A small-market win isn't as lucrative as one in a large market. The amount a small market team receives from the league may be more profitable than the revenue from winning a game. Where's the motivation to develop a great team?" Lewis said. "There is a negative effect on the incentives to invest in talent in small-market franchises" (Neuman, 2007).

This notion is based on the aspect of fanhood that losing teams just don't regularly attract a

lot of consumers. This is leading to a terrible cycle, and Lewis suggests that revenue sharing may not be fixing it because of the negative incentives involved. He goes on to present a twist to this program that I will discuss in my solutions section.

Many larger market owners feel they have the right to all of their revenues for several reasons. One of these reasons is the fact that while small market owners are allegedly pocketing revenue-sharing money in an effort to keep it coming, large market owners are more inclined to reinvest their revenues in the team and forgo greater profits in an effort to win. The other reason is that large market owners believe that they should keep all revenues they bring in because they paid a greater price to be in the large markets in the first place. In 2002, three teams were bought in MLB. The Boston Red Sox, a large market team, were bought for \$380 million. The New York Mets, another large market team, were bought for \$391 million. The Florida Marlins, a very small market team, were bought for \$158 million. So as George Steinbrenner argued, clubs pay the price to be in a larger market. Therefore, they should be able to reap all the benefits that come in the form of revenue.

COMPETITIVE BALANCE TAX

Aside from revenue sharing, MLB also enacted another instrument with the intent of promoting competitive balance. This other policy is called the luxury tax, also known as the competitive balance tax. While there is currently no salary cap in MLB like there is in other major sports, the luxury tax acts as a “soft cap” to try and keep teams from spending too much on their payroll. The idea behind this stems from the fact I’ve been discussing. Depending on markets, some clubs have an unfair advantage of higher inherent revenues that they can use to purchase player contracts. This allows the richer teams to develop better teams and reap even greater receipts to continue their high costs, which many small market teams can’t come close to matching. The general complaint is then that this makes it very difficult for smaller market teams to compete with the large market clubs because of the rising cost of quality players. The idea of the luxury tax is then to fiscally penalize any team that exceeds a determined threshold.

Basically, if any team pays salaries to their players which sum to greater than the amount pre-set by MLB, they pay a percentage of that payroll additionally. This pre-set ceiling rises each year, and is very high so that it doesn’t affect many teams. “The threshold for the 2006 season was \$136.5 million in the last year of the 2002-2006 CBA, and jumped to \$148 million in 2007 (the first year of the current CBA), \$155 million in 2008, \$162 million in 2009, \$170 million in 2010 and \$178 million in 2011, or increases of approximately 5 percent a year” (Brown, 2007). If a team does surpass it, though, they pay 22½% of their payroll as an additional tax. If the team in question is guilty of exceeding the threshold the second year as well, they must pay 30%. Then, if the team exceeds the threshold in any subsequent year under that CBA, they must pay a penalty of 40% for each

year (Brown, 2007). This extra penalty is to provide further disincentive to continually break the threshold. This provision of the luxury tax is important because while paying the tax is a deterrent, the teams who have the money to reach that payroll don't have much trouble paying the tax. But an increasing penalty tax rate should help to at least make teams second guess decisions that continually put them above the limit. And if the tax wasn't in place, a team like the Yankees could really put distance between themselves and their competition with one ludicrous contract after another, and not see any corresponding punishment.

Looking at 2010, only two teams were slammed with the luxury tax. To no surprise, one of the two was the New York Yankees. This year, the Yankees were only responsible for about \$18 million in taxes. That is a significant decrease from the year before when they had to shell out about \$26 million in luxury taxes as they walked away with their elusive 27th World Series Championship. The other team that had to pay the tax this past season isn't a surprise either because of their standing as a large-market team. The team I'm referring to is the Boston Red Sox. It also is not a surprise that the taxes paid by the Red Sox are far less than those paid by the Yankees because the Red Sox have a better reputation of operating with smart deals and structuring lucrative but reasonable contracts. The Red Sox had not been on the hook for Luxury Taxes since 2007, the year they last won the World Series. This past year, Boston had to pony over only \$1.5 million in fees. Following is a table showing all taxes that have been paid through the competitive balance tax system since its inception in 2003.

Luxury Tax Figures (2003-2009)

Luxury Tax Figures: 2003-2009								
Club	2003	2004	2005	2006	2007	2008	2009	Total
Yanks	\$11,798,357	\$25,964,060	\$33,978,702	\$26,009,039	\$23,881,386	\$26,862,702	\$25,689,173	\$174,183,419
R. Sox		\$3,148,962	\$4,148,981	\$497,549	\$6,064,287			\$13,859,779
Angels		\$927,059						\$927,059
Tigers						\$1,305,220		\$1,305,220
Total	\$11,798,357	\$30,040,081	\$38,127,683	\$26,506,587	\$29,945,673	\$28,167,922	\$25,689,173	\$190,275,477

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(Brown, 2010)

As the table illustrates, only four teams have been penalized by the luxury tax in the eight years it has been in play. This can bring on two different opinions, depending how you look at it. One may think this is a successful tool as evidenced by the more than \$190 million paid by clubs that pay their players an exceptional amount more than other teams. Others may look at this data and see flaws in the system. The complaint that would come from these people is that the soft cap that is the luxury tax is set too high. They would argue that the luxury tax should be lowered which would cause more teams to shrink their payrolls closer to the league average, or pay the fines. Also, it would make the penalties seen by perennial offenders greater, so even if they still exceed the limit, they will hopefully lower their payroll also closer to the league average. In the end, that is the goal to try and promote competitive balance.

The money that is paid annually by the few teams that owe the luxury tax gets used very differently than revenue sharing money. While the luxury tax attempts to serve the same purpose as revenue sharing in the sense of preventing large market teams from widening the revenue gap, it doesn't serve the same purpose in disbursing the funds. As

seen with revenue sharing, those funds are systematically allocated to the 30 ball clubs of MLB. With the luxury tax money, however, all the proceeds go directly back to the players in the form of benefits. This can lead to an indecisive stance from the players on the issue of luxury tax. As a unit, the MLBPA generally is in favor of a higher luxury tax cap because it allows large market teams to pay players larger salaries with less of a concern of reaching the instituted soft cap. But there may exist some individuals who aren't in the upper echelon of players, making mediocre salaries no matter what, so they would rather see more teams in the penalty to increase benefit money.

As far as the owners go, many expect them as a whole to be in favor of a lower luxury tax threshold when the new CBA negotiations come around. The only teams that would seemingly not be on board for this are the teams who regularly are over the penalty as is. This of course includes the Yankees and Red Sox. But as a whole, the owners will want a lower threshold to keep top free agents a realistic possibility as the top tier spending teams will be inclined to spend slightly less. And if nothing else, this can be used as a bargaining chip. This would come into play if the MLBPA were completely against adjusting the Luxury Tax. In this case, the owners can take a strong stance on the issue, and only drop it when the players drop another issue that the owners get their way.

BEST SOLUTION RECOMMENDATION

In the end, what MLB needs is to find a mechanism that works best to promote competitive balance. I have put forth reasons why competitive balance is ultimately desired by all stakeholders (MLB officials, owners, players, and fans) in the league, so now I'm looking for how to achieve it to the greatest degree. Throughout this thesis, I have examined several of the current mechanisms in place. Revenue sharing and the luxury tax are clearly in place to attempt to increase competitive balance. Another possible mechanism that I have alluded to is a salary cap. All other major sports operate with a salary cap, so it is definitely something worth considering. As written in *Baseball: An Illustrated History*, after MLB's implementation of revenue sharing, "major league baseball seemed to have found a formula to maintain competitive balance without applying the 'salary cap' that the players found unacceptable" (Ward and Burns, 2010, p. 500). But was this really the case? While my research indicates that revenue sharing seems to have offered assistance in lessening the competitive balance problem, it does not show any evidence that the problem has been completely eradicated. For that reason, I believe it is irresponsible to ignore any other potential solutions.

Another potential solution that is discussed is the idea of a salary floor. A salary floor would act as a minimum payroll that no team would be allowed to go under. This mechanism would be beneficial in two ways. Assuming that some sort of salary cap is enacted, against the wishes of players, the floor would help to at least partially negate the negative aspects the players see in a cap. The reasons for the MLBPA being opposed to a cap should be easy to see. The existence of a cap would limit the amount of money players can make. "In 1975, the average big league player had made \$45,676 a season, or three

times what the average American earned in a year – a ratio that wasn't much different from what it had been throughout the history of professional baseball. By 2000, the average big leaguer's salary was \$1.9 million, almost 50 times what the average American made" (Ward and Burns, 2010, pp. 500-502). If a cap were put in place, this growth would come to an end. Large-market teams would of course continue to spend as much as they are allowed to. But this solution doesn't fix the other side of the issue. It doesn't prevent small-market teams from pocketing revenue sharing money and not spending enough on their team like the large-market owners complain about.

That is where the salary floor comes into play. Setting a minimum helps to appease the large-market owners. If small-market teams are not allowed to drop their payroll between a certain negotiated level, they would be forced to reinvest a certain amount of the money they receive from other teams' local revenue. Besides appeasing the large-market teams, this would help to increase competitive balance as small-market teams are forced to field better teams. This would help to alleviate the strategy of some small-market teams who see more profits from losing than trying to win. Teams like the Pittsburgh Pirates who gain more money from revenue sharing than they would from investing in their team and increasing ticket prices will now have to reinvest some of those dollars. Under a salary floor policy, theoretically if a team like the Pirates chose to not reinvest their revenue sharing money, and fell under the salary floor, they would forfeit those profits. Therefore, it makes no sense to not try to make your team more productive. At this point, any increases in payroll that didn't lead to greater success can be blamed on nothing but poor managerial skills, negotiating by the general manager, or talent evaluating.

After looking through all these different mechanisms, what I feel would work best is

a combination. First of all, I feel that revenue sharing needs to remain in place. It has undoubtedly in my opinion, as my data illustrate, led to a higher degree of competitive balance throughout the league. The inescapable truth is that some teams play in cities that have more potential revenue. In other words, no matter how much better a Kansas City Royals team is, the population there is not great enough to bridge the gap of local revenues realized by a team like them and say the New York Yankees or Mets or the Boston Red Sox. Therefore, revenue sharing needs to remain a tool used to level the playing fields to some degree. It gives all teams the ability to operate as if their inherent parameters more similar. From there, all teams must rely a lot more on good decision making by the managerial crew in building a winning team.

Then I believe a salary floor must be enacted. As just explained, the main benefit of this would be to help provide a solution to the large-market teams' major complaint about revenue sharing. A salary floor will help prevent small market teams from pocketing their revenue sharing money. This complaint could also be attended to by creating more specific and stricter regulations on what revenue sharing money must be used for. The very general obligation of using it to increase the product on the field is side-stepped very easily. Perhaps coming up with a percentage of revenue sharing money that must be directly spent through retaining players or signing free agents would help.

Lastly, there is the topic of salary cap. As a fan of a large-market team, it is hard to say yes to this one. Like many other fans of a large-market team, I say if the ownership is willing to forgo profits in order to try and buy the best players to win, they should be allowed to do so. But through my research, I have come to the realization that a cap of some sort is in the best interest of the league. I feel that the salary cap should be sort of like a

tweak of the current competitive balance tax that is in place. It can be relatively high, where very few teams can even remotely come close. But in this case, no team can surpass it by law, instead of just paying fines for exceeding the limit. This will help to prevent a team like the New York Yankees getting too much of an advantage because of the incredible market they operate in, and brand they have developed over their incredible history.

I believe that no one mechanism can fix the competitive balance problem that is threatening MLB. Individually, each mechanism I've discussed would provide some benefit to MLB. But individually they would all see many downfalls as well. But when you combine several of them, you can bring out the positive results while countering with other mechanisms to eliminate any of their negative consequences. If the new CBA is negotiated and the competitive balance problem gets altered in this way, I believe all interested parties will see increased satisfaction from these past years. At the end of that agreement, the league will be in a better place than it is now, and have new information to analyze in seeking even greater improvements.

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Objective Provide Academic Vita for Honors Thesis

Education **The Pennsylvania State University**

University Park, PA

•Schreyer Honors College,

Graduating May 2011

•Honors in Economics

•Thesis Title: Striving For Competitive Balance in Major League Baseball: Optimization of Revenue Sharing

•Thesis Supervisor: Mark McLeod

•Honors Advisor: David Shapiro

Activities **Undergraduate TA**

•Intermediate Macroeconomics Analysis with Dr. Russel Chuderewicz Fall 2009

•Intermediate Microeconomics Analysis with Dr. Mark McLeod Spring 2010

•Responsible for running Economics lab to assist about 700 students, proctor exams and grade assignments and exams under each TA position.

Participant in Intramural basketball and baseball throughout.

Work **Crebilly Farms, West Chester, PA – Farm hand, general laborer**

Summer 2010

Experiences •In charge of general manual labor, primarily lawn care, barn stocking, and clean up.

Summer 2009

•Dealt with Customer satisfaction in lawn care.

•Responsible for delivering materials and tools to workers around property

Tuition Painters, West Chester, PA – Painter, Job Site Manager

Summer 2009

•Responsibilities included prepping, painting and cleaning up both in and outdoors.

Summer 2008

•Managed 2-4 other painters on each job site.

•Delegated roles to workers to manage time and stay on schedule.

•Dealt with customer communication and satisfaction on site.