Baseball Revenue Sharing Essay, Research Paper

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Restructuring Baseball

As the seasons progress in major league baseball, the economic structure of baseball is suffering from numerous problems, which are currently allowing for the competitive balance to be less than ideal. Baseball is faced with problems amongst the revenues, which there teams are receiving. This disparity in revenues is causing some teams to not be able to sign players that they need to compete: whereas, teams like the Yankees, and Braves can go out and sign basically whomever they want, and have payrolls, which are surpassing 100 million for a season. What I propose to do, in order to solve the problems with baseball is to revamp the current Luxury Tax system, come up with a minimum and maximum salary level, and develop a revenue sharing program, which will help the lesser teams out. I feel that these changes will allow for baseball to be more competitive every season, and would allow some small market teams not to move. Baseball is in need of Restructuring due to the current disparity amongst all the teams in terms of revenues.

When considering any possible changes in the baseball structure, you must consider them from three different perspectives. Owners of Major League Baseball teams have argued that restrictive practices are needed to ensure competitive balance. Without restrictions, owners argue that large market teams will simply outbid for all the available talent and leave the small market teams, with the less talented players. But the problem with this is that why would the owners in the big markets like Ted Turner, and Rupert Murdoch, who spent enormous sums of money to buy their teams in the major markets why would they ever agree to allowing the small market teams to compete for free agents with them. The major league players want a free market, where they can get the most money possible. The other group, which needs to be considered in any type of proposal, is the fans. The fans want their team to have a chance of making the playoffs, without having to have a huge payroll.

In major league baseball today, the current problem is the dominance, which teams that have the largest payrolls have over those who do not. In 1999, the eight teams that made the playoffs: the New York Yankees, Texas Rangers, Atlanta Braves, Cleveland Indians, Boston Red Sox, New York Mets, Arizona Diamondbacks and Houston Astros all ranked in the top 10 in payroll (Cohn 1.) In contrast to this, the teams with the four worst records the Kansas City Royals, Minnesota Twins, Montreal Expos, and Florida Marlins, had the four lowest payrolls (Demmert 36.) In most cases having a large payroll will ensure you of making the playoffs every year, the exceptions being the Baltimore Orioles and the Los Angeles Dodgers. According to the General Manager of the Florida Marlins Dave Dombrowski, Payroll does not necessarily equate with winning, but you have to have the dollars so that you can win. (Rascher 31.) The problem here is that there is a lack of turnover from year to year among the teams with the highest revenue and of those teams; they are capturing an increasingly larger share of the market. But in baseball, no team can be successful unless its competitors also survive and prosper sufficiently so that the difference in the quality of play among teams are not too great (Rottenberg 254.)

Proposed Solutions

Luxury Tax

The beginnings of the luxury tax started after the strike in 1994, the owners and the players settled on a new collective bargaining agreement in 1996. The primary issue in this agreement was that of a Luxury Tax. The basis of this tax was to tax payrolls of large market teams with the funds being redistributed to small market teams. This luxury tax idea took effect in 1997 season and has continued since then. In 1997, teams with payrolls over $51 million were taxed thirty five percent of the amount, which they were over. In 1998, the payroll amount was increased to $55 million. In 1999, it increased to $58.9 million with a thirty four percent tax (Schmuck 2.) The problem with the luxury tax is that the amount of money, which it is providing with the teams, is not all that much, and it is not necessarily being used to put a better team on the field. I think that the current idea of a luxury tax is something that could be successfully if revamped. This luxury tax needs to be at a salary level low enough, and a tax percentage at a high enough level so that the large market teams will be significantly impacted. While the luxury tax of 1996 did redistribute some funds, the actual amount that was exchanged was inadequate for any significant change in revenue to occur. As a matter of fact, the difference in payrolls from top to bottom has increased. In 1996, the New York Yankees had the highest payroll at $50.5 million and the Pittsburgh Pirates had the lowest payroll at $16.7 million a difference of $33.8 million. In 1999, with the tax in existence for its third year, the Yankees once again had the highest payroll at $91.9 million while the team with the smallest payroll the Florida Marlins was at $14.6 million, a difference of $77.3 million, by the 2000 season the difference grew even greater. The Yankees once again were the highest in payroll at $114 million, whereas the Twins were the lowest at $24 million a difference of $90 million dollars. (Newhan) As these numbers show, this Luxury Tax, which was implemented in 1996, has really not done much good. In fact it has separated the teams in payroll even more so than it probably was intended to do.

Salary Cap

What I think would work good for Major League Baseball would be to develop a minimum and a maximum salary for which teams cannot go under or over. The way, which this minimum and maximum should be derived is through how the NBA does it, the cap will be based on a percentage of league revenues, and then a number will be assigned based on that number. One of the most storied broadcasters Bob Costas said the objective of a salary cap is to enhance the competitive balance and stabilize the game s economics. What it does salaries is an important but secondary concerns. (Costas 92) The only major drawback with setting a salary cap is that the small market teams are going to want to spend the minimum amount of money necessary for survival in the game. It is for this very reason why Major League Baseball (MLB) must derive a minimum salary for all the teams like the Twins, Expos and Royals so that the money they receive from revenue sharing goes to putting a better product on the diamond. The number, which I feel would be appropriate for improving the competitive balance, is the game is setting the minimum payroll at $35 million and setting the Maximum payroll at $100 million. You could propose that unless the team met the minimum payroll, then they would lose their franchise.

Revenue Sharing

The key component in the restructuring of baseball is to increase the amount of revenue that each team visiting team receives from the gate split and other performance incentives. The problem lies in the fact that the percentages are not even the same throughout, the two leagues (American and National Leagues.) Currently, in the American League the home team keeps 80 percent while the visiting team gets 20 percent. In the National League, the home team-visiting team split is 95 percent home team, 5 percent visiting team. Along with the gate split, the sharing of local media revenues, which currently are not shared at all and these are the largest source of inequality amongst all the teams. What I think needs to be done is to have the Home team get 75% of the revenue, where the away team receives 25%.

Currently all teams pay a 20 percent revenue tax into a central fund, with all teams drawing money out on a scale that pays the eight lowest revenue clubs, the most money. Under this current revenue sharing system, the New York Yankees paid $23 million in revenue sharing last year, and the Minnesota Twins received $22 million (Stark 3) what is so messed up with the current system is the fact that a team like the Texas Rangers, who just signed Alex Rodriguez for $252 Million is receiving funds under the current system. What I think should be done about this is to adjust the tax rate to 35% of your revenues, and have it so that only the lowest revenue clubs get anything from this fund.

What most people feel the benefit of a comprehensive revenue sharing arrangement among all the teams involved in baseball would be is the small market teams will receive additional revenues and will thusly be able to afford better players, which would increase their winning percentage, and enhance the competitive balance in the game. Currently, in professional sports Major League Baseball s revenue sharing agreement would be considered somewhat middle of the road. The NBA being the least balanced, with the home teams not sharing gate receipts with the visiting team, and the NFL being the most balanced, with a 60-40 home visitor split. A move to a revenue sharing system like the NFL s is critical to ensure the future of the game of baseball. Revenue sharing coupled with a salary cap (min and max,) would help small market teams avoid having to possibly shutdown or relocate (Minnesota, Montreal) and possibly allow them to be among the elite teams once again.

Major League Baseball is at a point where they cannot afford another work stoppage like they had in 1994. If the gap between the have s and the have-nots continues to grow, the sport of baseball may be in danger of becoming less popular of a sport than it is now. What I feel baseball should do in an attempt to rejuvenate the competitive nature of the game is revamp the current luxury tax system so that the teams that go over a certain salary level pay a tax on that number. The beneficiaries of this tax will be those teams, which are in the bottom 8 in revenue in the league. My next way to solve the problems was the idea of setting a minimum, and a maximum salary. The minimum payroll at $35 million, and the maximum at $100 million. My luxury tax would start above $75 million. And the final way, I mentioned to fix the problems in baseball was to change the revenue sharing, so that in both leagues the home team receives 75% of the funds, versus 25% for the visitors.

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338