Baseball negotiations: a new agreement

The 2002 collective bargaining agreement between Major League Baseball's owners and players may result in almost a billion dollars moving from high- to low-revenue teams over 4 years; a new luxury tax threshold was established, minimum salaries were increased, and random drug testing for steroids was adopted on an experimental basis

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The modern history of collective bargaining in baseball is replete with work stoppages. Since 1972, every round of negotiations between Major League Baseball's owners and players has produced either a strike or a lockout. That year's baseball season began with a 13-day spring-training strike. The 1973 season saw an 18-day lockout, also during spring training. Problems continued in 1976 with a 17-game spring-training lockout, in 1980 with an 8-day spring-training strike, in 1981 with a 50-day midseason strike, in 1985 with a 2-day midseason strike, and in 1990 with a 32-day spring-training lockout. Then came the big 1994–95 strike, the longest ever in professional sports, lasting a total of 232 days. Exhibit 1 summarizes these events and the main issues that were in contention between the parties.

Prior to the 1972 strike, in 1966, Marvin Miller was hired as the first full-time director of the Major League Baseball Players Association. He came from the Steelworkers Union and brought a new approach to player negotiations. Instead of adopting the paternalism of the past, Miller used a more traditional trade union approach, confronting the owners with demands and backing them up with power.

Miller's big breakthrough occurred on free agency. Since the late 19th century, a reserve clause in players' contracts stipulated that the club to which a player belonged controlled the right to that player, unless he was sold, traded, or released. In what economists call a *monopsony*, there was only one buyer of a player's services. This arrangement kept players' salaries low.

In 1970, Curt Flood challenged the reserve clause after he was traded from the St. Louis Cardinals to the Philadelphia Phillies. He refused to report to the Phillies and filed a lawsuit against Major League Baseball on antitrust grounds, claiming that his freedom in the labor market was restricted by the reserve clause. The U.S. Supreme Court ruled against Flood in 1972, because its earlier 1922 precedent gave baseball an exemption from the antitrust law. So Flood lost, but his lawsuit stirred the pot for future challenges.

A couple of years later, Jim "Catfish" Hunter of the Oakland Athletics agreed with club owner Charles O. Finley that $50,000, half of Hunter's 1974 salary, would be placed into an insurance trust. Back in 1970, the farsighted Miller had negotiated a provision for arbitrating the players' grievances with the owners. When Finley failed to pay the $50,000 in a timely fashion, the union filed a grievance that was submitted to arbitration under the collective bargaining agreement. Arbitrator Peter Seitz found that Finley had breached Hunter's contract. After Seitz declared

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Exhibit 1. Baseball work stoppages, 1972 to present

Year	Type	When	Main issue	Length
1972	Strike	Spring training	Benefit plan	13 days
1973	Lockout	Spring training	Contract	18 days[1]
1976	Lockout	Spring training	Free agency	17 days
1980	Strike	Spring training	Free agency	8 days
1981	Strike	Midseason	Free agency	50 days
1985	Strike	Midseason	Salary arbitration	2 days[2]
1990	Lockout	Spring training	Salary arbitration	32 days[3]
1994–95	Strike	Midseason	Salary cap	232 days

[1] Owners delayed opening training camps, so no games were lost.
[2] Twenty-five games that were lost were made up at the end of the season.
[3] Seventy-eight games that were lost were rescheduled. The regular season started 1 week late.

SOURCE: Data from author's files and Paul D. Staudohar, *Playing for Dollars: Labor Relations and the Sports Business* (Ithaca, NY, Cornell University Press, 1996), pp. 29–31, 45–51.

Hunter a free agent, Hunter signed a 5-year contract with the New York Yankees for $3.75 million, showing the salary clout that a free agent had in the labor market.

In 1975, another case went before arbitrator Seitz. This case was even more important, because it was a direct assault on the reserve clause. Andy Messersmith of the Los Angeles Dodgers and Dave McNally of the Baltimore Orioles had both played for their clubs for a year without signing a contract. When the case came before Seitz, he interpreted the reserve clause to allow for only a 1-year rollover, declaring Messersmith and McNally free agents.

This breaking of the reserve clause led to a 1977 agreement between the union and Major League Baseball which stipulated that players were eligible for free agency after 6 years. Subsequently, there have been work stoppages over free agency (in 1980 and 1981), but the 6-year waiting period continues to be applied.

Salary arbitration also has been a source of conflict. Established in the 1973 collective bargaining agreement, salary arbitration allows players with about 2.7 or more years of major league experience to submit a final offer on their salary for the coming year to an arbitrator. The club also makes a final offer, and the arbitrator picks one of the two salaries offered, which both the player and the club must accept. Although salary arbitration itself has continued over the years, disputes over its eligibility rules led to the 1985 and 1990 work stoppages.

Key aspects of negotiations

The negotiation process in baseball can be assessed in terms of four areas: (1) dividing up the revenue, (2) joint problem solving, (3) constructive attitudes, and (4) intragroup dynamics among the owners and the players.

Dividing revenue. The biggest area for potential disagreement is money: allocating the revenues that Major League Baseball gets from gate receipts, broadcasting, concessions, and other sources. Baseball is different from industries like autos and telecommunications in that collective bargaining does not directly set wages for employees. Instead, baseball salaries are determined by individual negotiations between a player, usually represented by an agent, and his team. But collective bargaining creates benefits such as salary arbitration and free agency, which influence the outcomes of individual negotiations.

How much money is there to share? Unlike other industries, baseball and other sports are unique in that financial data are not ordinarily available. A typical company discloses data in quarterly reports, but most sports teams are not publicly owned and are therefore not obligated to disclose their finances. Still, a good idea of the overall financial health of Major League Baseball can be determined.

About 40 percent of Major League Baseball's revenues come from broadcasting, mostly television. A 2001–06 agreement with Fox Television Network to broadcast games increases Major League Baseball's revenues by 45 percent over the previous payment for the same package. Another 6-year agreement with ESPN, which includes radio and Internet rights, provides an even greater increase. The bottom line is that each team is receiving national broadcasting revenues of $18.6 million annually, an increase of about two-thirds over the previous deals with the television networks.

Additional funds come from the sale of local broadcasting rights. There is some revenue sharing among teams, but the lion's share is kept by the club. This arrangement causes a rich-poor disparity. For example, the New York Yankees received $52 million from local television revenues in 2001, while several teams in smaller markets got less than one-tenth that much. Notwithstanding the disparity, virtually all clubs are getting more in local broadcasting money. Moreover, ticket prices to games and attendance at stadiums are at high levels.

So, as the 2002 contract negotiations began, there was plenty of money to be divided up—about $3.5 billion, much more than the $1.7 billion available when the last work stoppage occurred. A major cause of the 1994–95 strike was the slicing of national television revenues by more than half as a result of an agreement with NBC and ABC that ill-advisedly based revenues on advertising sales; also, ESPN reduced its up-front money paid to Major League Baseball. This revenue shortfall put particular pressure on small-market clubs that were dependent on national television money. Naturally, these clubs looked to collective bargaining for relief—a remedy that increased the complexity of the 1994–95 negotiations. With more money on the table in the 2002 negotiations, the small-market clubs were generally in better shape financially than they had been and didn't want to kill the golden goose.

The disparity in high- and low-revenue teams means that clubs like the Yankees can afford to pay players more because of the large amounts of money those teams generate from local television broadcasts. Wealthy teams attract better players and are more likely to win games. Salaries are generally high in baseball, averaging a record $2.4 million in 2002. The multitalented Alex Rodriguez of the Texas Rangers earns $25 million a year. Also, players are now getting paid a greater share of total revenue: 56 percent in 2001, compared with 38 percent in 1990 and 21 percent in 1975.[1]

Major League Baseball Commissioner Bud Selig claimed that teams lost a total of $511 million in 2001 and that only five teams made money. The problem with this statement is that it refers to "accounting numbers," not the actual value of teams' assets. As Major League Baseball's Chief Operating Officer Paul Beeston once said, "Under generally accepted accounting principles, I can turn a $4 million profit into a $2 million loss and I can get every national accounting firm to agree with me."[2] A better indication of the value of baseball franchises is what they are bought and sold for. *Forbes* magazine estimates that the average value of a team rose to $233 million from $115 million in the 5 years from 1995 to 2000.[3]

Joint problem solving. Except for the recent cooperation on antitrust matters, there has been no evidence of joint problem solving in baseball. In the wake of the 1994–95 strike, the parties agreed to seek a change in baseball's exemption from antitrust law. The bill they jointly proposed was passed into law as the Curt Flood Act of 1998, named after the aforementioned player who lost a 1972 court case trying to get the exemption overturned. The new law removes baseball's antitrust exemption for purposes of labor relations only.[4] This means that, in the event of a work stoppage, the monopoly power of major league baseball could be legally challenged.

Although the Flood Act is admirable as an example of labor-management cooperation, it does not provide much help in preventing a work stoppage. The reason is that, in order to sue on antitrust grounds, the players must first decertify the union as their representative, but there is little chance of that happening, because the union is indispensable to the collective bargaining process. At best, the Act could be used to prevent a stoppage from going on for a lengthy period.

Constructive attitudes. Attitudes are another key factor in negotiations. Both Marvin Miller and his successor, Donald Fehr, have approached negotiations with the owners from a sober, tough-minded vantage point. Meanwhile, the owners have hired like-minded negotiators of their own, and bargaining has become increasingly knotty.

There were high hopes that attitudes would be different this time around. The beginning of informal bargaining talks in late summer 2000 showed some promise. Fehr appeared to adopt a more conciliatory approach. Similarly, the chief negotiators for the owners, Beeston and attorney Rob Manfred, were more inclined toward problem solving than doing battle. They realized the importance of starting the negotiations early, thereby laying a foundation for later agreement.

But these informal talks failed to ripen into substantive understandings. First, Commissioner Selig's views coincided with those of baseball executive Sandy Alderson, who was successful in defeating the umpires' union in a confrontation in 1999. Then, two other events also intervened to affect attitudes. One was the September 11, 2001, terrorist attacks, and the other was the owners' vote to contract the number of baseball franchises.

A week before the terrorist attacks, the commissioner's office notified the union that the owners would seek changes in the collective bargaining agreement that was due to expire after the 2001 season. This notification, a formality that, under the National Labor Relations Act, typically heralds the opening of formal negotiations, does not necessarily mean that formal talks will actually commence. Indeed, as it turned out, an opportunity to begin serious discussion was lost.

With the Nation concentrating on more important things than baseball after the terrorist attacks, it appeared that either a quick settlement would be reached or negotiations would be put off for a year by extending the current agreement. However, neither of these alternatives was realistically considered. Instead, on November 6, 2001, the owners voted, 28 to 2, to eliminate two teams by the start of the 2002 season. No teams were specified, but they were widely believed to be the Montreal Expos and the Minnesota Twins. In response to the announcement of the contraction in the media, the Major League Baseball Players Association filed a grievance, and lawsuits were brought in Minnesota and Florida (whose Tampa Bay Devil Rays and Florida Marlins might also be affected by the contraction) protesting the owners' intentions.

Whatever positive attitudes had been developing between labor and management were shattered by the contraction proposal. Negotiations began, but the talks broke down, and the union continued to pursue its grievance to arbitration. The lawsuit in Minnesota forestalled contraction for 2002. The Twins were contractually obligated to play in the Metrodome that year, and a county district court issued an injunction against folding the team.

Intragroup dynamics. Although both the players and the owners are far from united among themselves, historically the players have held together better. In the past, negotiations have faltered when the owners failed to come up with a unified approach. By contrast, the players' cohesiveness has helped the union put up a united front at the bargaining table, leading to impressive monetary and other gains.

On one issue—contraction—the owners showed solidarity, with the only two opposing votes coming from the owners of the two franchises—Montreal and Minnesota—that were slated to go. On a range of other issues, however, such as revenue sharing, debt servicing, and whether a work stoppage would be acceptable, interests diverged, and the owners split into factions.

Four clubs—Atlanta, Los Angeles, Anaheim, and the Chicago Cubs—are part of large corporations (AOL-Time Warner, Rupert Murdoch's NewsCorp., Disney, and the Tribune Company, respectively). Other clubs, such as Arizona, San Francisco, and Texas, are highly leveraged in order to finance new ballparks and pay high salaries to players. One group of owners, typically from smaller markets, was closely aligned with Selig. Among these individuals were David Glass from Kansas City, Drayton McLane from Houston, John Moores from San Diego, and Carl Pohlad from Minnesota.

One of Selig's chief aims was to gain consensus among the owners. If owners are trying to gain the attention of the media, expressing different views, management's effectiveness at the bargaining table is undercut. For this reason, Selig indicated that he was the only management spokesman on labor issues and that any owner who spoke independently would be fined a million dollars. (A similar gag rule was in effect in previous negotiations.) When Boston Red Sox Chairman John Harrington told the *Boston Globe* that there would not be another work stoppage and that the current agreement might be extended through 2002, Selig reportedly fined him "several hundred thousand" dollars. He was not fined the full million dollars because he convinced Selig that his comments were made before the commissioner's edict was made known, but were not printed until afterward.[5] Recognizing the need to give full support to Selig, the owners voted unanimously in late 2000 to extend his contract as commissioner for 3 years, through the end of 2006.

Issues

Having twice sparred over free agency and salary arbitration, it was doubtful that the parties would go to the mat on these issues. More likely to be a source of friction were the luxury tax and revenue sharing, issues addressed in the report of the Commissioner's Blue Ribbon Panel in 2000. The panel, consisting of former Federal Reserve Board Chairman Paul Volcker, columnist George Will, former Senator George Mitchell, and Yale President Richard Levin, studied the economics of baseball for 18 months and produced a detailed and comprehensive report that was of significant aid to negotiations.

The luxury tax was a bone of contention in the 1994–95 strike. The owners had proposed a salary cap limiting team payrolls (similar to caps that were adopted for basketball and football). The players, naturally, wanted no part of it. A compromise was reached in the form of a luxury tax, penalizing clubs with high payrolls by imposing a surcharge above a certain amount and then distributing the tax revenues to poorer clubs. The tax addresses baseball's problem of wealthy teams in big markets having a competitive edge over low-revenue teams in smaller markets.

Experience has shown that the luxury tax had minimal effect on deterring big-spending teams like the Yankees or Dodgers from gobbling up attractive free agents. But the system was in place, and the focus of attention in the negotiations was on whether and to what extent the tax should be made more punitive.

Table 1 shows experience with the luxury tax under the 1995–2001 agreement. The tax was not applied for the 2000 and 2001 seasons, pursuant to the agreement. Under the initial arrangement, the luxury tax was estimated on opening-day payrolls, but the actual tax was based on final payrolls computed in December. Therefore, teams were able to lower the actual tax by trading or releasing players during the season.

It is clear from the total luxury tax paid during the 3 years listed in the table that even the Orioles and Yankees did not pay much in tax. To have a deterrent effect on big-spending clubs, the tax rate would have to be increased significantly. The Commissioner's Blue Ribbon Panel recommended raising the rate from 34 percent in 1999 to 50 percent annually.

As regards revenue sharing, under the expired agreement the owners contributed about 20 percent of their local revenue to the revenue-sharing pool. The panel recommended that owners increase these contributions to as much as 50 per-

Table 1. Luxury taxes paid, 1997–99

Year	Taxes paid
Total, 1997–99:	
Baltimore Orioles	$10,643,897
New York Yankees	9,919,651
Los Angeles Dodgers	2,712,672
Boston Red Sox	2,205,960
Cleveland Indians	2,065,496
Atlanta Braves	1,795,582
New York Mets	1,137,992
Florida Marlins	139,607
1997:	
New York Yankees	4,431,180
Baltimore Orioles	4,030,228
Cleveland Indians	2,065,496
Atlanta Braves	1,299,957
Florida Marlins	139,607
1998:	
Baltimore Orioles	3,138,621
Boston Red Sox	2,184,734
New York Yankees	684,390
Atlanta Braves	495,625
Los Angeles Dodgers	49,593
1999:	
New York Yankees	4,804,081
Baltimore Orioles	3,475,048
Los Angeles Dodgers	2,663,079
New York Mets	1,137,992
Boston Red Sox	21,226

SOURCES: *Los Angeles Times*, Dec. 26, 1997, p. C2; *New York Times*, May 4, 1999, p. C30; *San Francisco Examiner*, January 23, 2000, p. D3.

cent. Local revenues are only part of the revenues shared, but they include crucial sources such as local radio and television monies, proceeds from ticket sales, and returns from suite rentals, concessions, and parking.

The revenue-sharing issue is tied to contraction, in that if low-income teams are eliminated, the richer teams would be able to keep more of their money. For instance, the Expos and Twins each received nearly $20 million from revenue sharing. Thus, if they were to disband, the other baseball owners would reduce their revenue-sharing donations by $40 million. They would also divide up the Expos' and Twins' receipts from the national television agreement—$18.6 million per team—and another $2 million per team from licensing and merchandising revenues.[6]

The owners contemplated having a team salary cap similar to what has existed for several years in basketball and football. (Interestingly, about a hundred years ago, the National League had an *individual* salary cap of $2,400 per player.)[7] The cap means that each team is limited to paying all of its players no more than a specified amount of payroll.[8] Because the players were vehemently opposed to a cap and a cap was not recommended by the Blue Ribbon Panel, it did not become a focus of attention in negotiations.

The panel did recommend a salary *floor.* Some clubs with low payrolls can afford to pay more. A salary floor would require teams to be competitive in their payrolls. The panel recommended that clubs have a payroll of at least $40 million in order to receive money from revenue sharing. In 2001, the Twins had the lowest payroll in baseball, $24 million; the next lowest club was the Oakland Athletics, at $34 million.

The negotiations

Bargaining talks began on January 9, 2002, about 2 months after the agreement expired. As expected, the owners brought proposals on a luxury tax and revenue sharing to the table. Commissioner Selig asked for a luxury tax of 50 percent on payrolls in excess of $98 million. On revenue sharing, he proposed that teams place 50 percent of their locally generated revenue, after deductions for ballpark expenses, into a pool that would then be distributed equally to all teams. These proposals were consistent with what was recommended by the Blue Ribbon Panel.

On February 13, 2002, the union rejected the owner's luxury tax proposal without making a counteroffer. Only a small change (to 22 percent) was offered on revenue sharing. Around this time, Bob DuPuy, Selig's longtime personal attorney, headed up the owners' bargaining team, although there was no doubt that the last word rested with Selig. Major League Baseball attorney Rob Manfred continued to be part of the management bargaining group. Assisting Don Fehr was Gene Orza, the union's attorney. The parties were meeting only sporadically at this point, with little, if any, sense of urgency.

About once a month during the talks, Selig made announcements to the media, seeking to influence public opinion in the owners' favor. In late March, he said that there would be no lockout during the 2002 season. Thus, if there was a work stoppage, it would come from the players in the form of a strike. The no-lockout pledge, however, was not really a meaningful gesture, because a lockout during the current season would not be a wise choice by the owners. Some observers began to wonder what the owners might do when the season was over.[9] Selig next opined that unless the current system were changed, six to eight teams were in danger of folding, and that Major League Baseball teams collectively were $4 billion in debt.[10] He then suggested that baseball's debt problems were so severe that one team might stop paying its players and another might not be able to finish the season.[11]

Independent research confirmed that the average Major League Baseball team was $109 million in debt and was worth $286 million, for a debt-to-value ratio of 38 percent (in contrast to 25 percent for the National Football League and 34 percent for the National Basketball Association), and that nine teams had debt-to-value ratios above 50 percent.[12] These high-debt teams could not afford a strike.

Even more effective in swaying public opinion than Selig's media effort was the negative publicity caused by some baseball players' use of steroids to enhance their performance. In a much-publicized article, former player Ken Caminiti revealed that he had used steroids when he won the National League Most Valuable Player Award in 1996 and that at least half of the big-league players used them as well.[13] Another former player, Jose Canseco, also admitted using steroids and thought that some 85 percent of current players were doing so.

Earlier, Selig had proposed random testing not only for steroids, but for other performance-enhancing drugs and illegal drugs as well. After the controversy erupted, the union leaders felt obligated to assess the players' views, in order to determine a consensus on testing. However, for a long time, the union had insisted that such testing was an invasion of privacy and would not be allowed under any circumstances, a position that much of the public disagreed with. To make matters worse for the union, Fehr was on the board of the United States Olympic Committee, which strictly prohibits performance-enhancing drugs.[14] Soon, public opinion, which in the past had been more favorable toward the players, shifted to a more evenhanded outlook.

In August, the union finally agreed to steroid testing on a trial basis for 2003. It did not, however, agree to testing for other performance-enhancing drugs or illegal drugs such as cocaine. Although, as the old adage would have it, "better late than never," the agreement cost the union in the forum of public opinion.

Another major issue on which agreement in principle was reached was that of a worldwide draft of players. The National Basketball Association and the National Hockey League have long had global drafts, but Major League Baseball's current draft covered only players from the United States (including Puerto Rico) and Canada, although foreign players attending U.S. schools also were eligible. About half of the players in the minor leagues are foreign born.[15] Without a global draft, high-revenue teams, such as the Yankees and Red Sox, were in a better position than low-revenue teams to sign the best foreign players to free-agent contracts. A worldwide draft levels the playing field, allowing low-revenue teams greater access to the best players. The owners proposed that the draft be 40 rounds, while the union wanted only 16 rounds. Cuba was excluded from the draft.

The parties made little progress on revenue sharing and the luxury tax. On August 12, 2002, it appeared almost certain that the union would announce a strike for late August or early September. Surprisingly, it elected not to do so, leaving the public with the hope that there might be a settlement. Arguably, the union would have little choice but to strike if reasonable terms could not be agreed upon. Under American labor law, if an impasse occurs in bargaining, management can implement its own proposals. Presumably, the owners would do so prior to the 2003 season. By striking near the end of the 2002 season, when the players would have received most of their salaries, greater pressure would be exerted on the owners, who would lose significant revenue from television and the postseason playoffs. By contrast, power would shift to the owners if they could present the players with a fait accompli before the 2003 season, when players had not yet received any paychecks. Still, as the owners learned to their dismay near the end of the 1994–95 strike, declaring an impasse may not be sufficient for imposing unilateral terms if they have committed unfair labor practices.[16]

On August 16, the union's executive board set an August 30 strike deadline. The announcement of the strike stimulated negotiations because it placed a clear limit on the time remaining to work out a deal. It also brought into sharper focus the implications of a strike. Should the season be wiped out, which was now a real possibility, it would cost the owners more than a billion dollars. Under the terms of its national broadcast rights contract with the Fox Television Network, Major League Baseball would have to pay Fox for lost games, which alone would cost more than $500 million.[17] The players would forfeit 16.9 percent of their salaries.[18] Although overall levels of attendance were robust, total attendance was down 6 percent in the major leagues, due partly to the anticipation of a strike. With the shadow of the anniversary of September 11, 2001, creeping up, the event made the parties more conciliatory.

The two most difficult issues to resolve were the luxury tax and revenue sharing, because they involved the most money. On the luxury tax, the owners proposed a threshold of $102 million for 2003, increasing annually to $111 in 2006. The players proposed that portions of payrolls above $125 million be taxed in 2003, increasing annually to $145 million in 2005, with no tax in the final year. The owners proposed a tax rate of 37.5 percent for the first year a team exceeded the threshold, escalating to 50 percent the fourth time it did so. The players countered with 15 percent and 40 percent, respectively.

On the luxury tax issue, there was an understanding between the parties that computation of the threshold would be based, not on the 25-man payroll, but on the 40-man roster expenditures. (Besides the 25 players on a major league team, 15 additional players under contract are assigned to minor league clubs.) Also, the benefit plan contribution by teams would be included in the threshold. Thus, the 25-man payroll of the Yankees (the highest in baseball) in 2002 was $135 million, but it increases to $171 million when the 15 additional salaries and the benefit plan contribution are factored in.[19]

Under the previous agreement, revenue sharing was done by a split-pool system in which each team contributed 20 percent of its net local revenue to the pool, after deducting ballpark expenses. The pool was then redistributed, with 75 percent going to all 30 teams and 25 percent to only those teams with local revenue below the major league average. The owners wanted to replace this arrangement with a straight-pool system wherein revenues would be divided evenly among all teams. The owners reduced their initial proposal of a 50-percent rate to 37 percent, and the union moved up from 25 percent to 33.3 percent. Although the union initially wanted to retain the split-pool system, it agreed to the equal-sharing concept of the straight-pool system.

Still, the union insisted that the combined luxury tax and revenue-sharing proposals of the owners were tantamount to a salary cap. On August 19, Don Fehr sent a memo to all players' agents, arguing against the owners' position and citing figures to illustrate the large increases in revenue that would be lost by wealthy clubs. For instance, the Yankees would have to give up $86.9 million in revenue, far more than the $28 million forfeited in 2001.[20] One day after Fehr's memo was circulated, management made a significant concession on revenue sharing, proposing that a total of $235 million be transferred instead of $282 million.[21] This concession seemed to break the logjam, and the parties started to hammer away at their differences.

The settlement

To the delight of baseball fans, the parties reached agreement, averting a strike that few really wanted. The principal result is that nearly a billion dollars in revenue may move from the richer teams to the poorer ones over the 4-year life of the agreement, from 2003 to 2006.[22] In the 11th-hour settlement, reached on August 30, the parties agreed that all teams will contribute 34 percent of their local revenues to a fund that will be divided equally among teams. In addition, a central fund component was established by a formula that provides another $72.2 million, taken annually from richer teams and distributed to poorer teams. The component will be 60 percent funded in 2003, 80 percent in 2004, and 100 percent in 2005–06.[23]

The luxury tax threshold was established at payrolls above $117 million in 2003, $120.5 million in 2004, $128 million in 2005, and $136.5 million in 2006. The tax rate will range from 17.5 percent to 40 percent, depending on the year and the number of times the team exceeds the threshold. Luxury tax revenues will be used to fund player benefits and player development programs.

As noted earlier, random drug testing of all players for steroids was agreed to for 2003 on an experimental basis. But the details are disappointing. If 5 or more percent of the players test positive, random testing will occur in 2004–05. If 2.5 or a smaller percent test positive in consecutive years, mandatory testing will cease. The testing applies to the entire 40-man roster of clubs, but, given the possibility that players will use steroids and then stop for a while to avoid a positive test, the new program is expected to have minimal effect.[24] Also, the program does not apply to muscle enhancers such as human growth hormone or androstenedione, substances that are banned by the National Football League and the International Olympic Committee.

Although a worldwide amateur draft of players was agreed to, the details will be considered by a joint committee that will study and report on the issues. The hope is that the new draft system will be in place by June 2003. Free-agency compensation was eliminated, so teams will no longer have to give up players in the amateur draft if they sign free agents. Minimum salaries were increased from the current $200,000 to $300,000, an important gain for young players. The parties agreed that contraction will not take place during the life of the agreement, thus backing off from this divisive issue. Accordingly, the earliest a team could be eliminated would be for the 2007 season.

The owners ratified the agreement by a vote of 29 to 1, with the dissenting vote cast by Yankees owner George Steinbrenner. The Yankees, by far the richest team in baseball, will lose the most from the new deal, with revenue-sharing and luxury tax bills that probably will exceed $50 million in 2003. But the Yankees' loss is the gain of low-revenue teams such as the Twins and Expos, which will have more money to sign their star players without losing them to rich teams. However, because a salary floor was not adopted in the agreement, low-revenue clubs can simply divert the money to other uses instead of spending it on players. Also, mid-range journeymen players could lose out under the deal, as teams that continue to sign high-priced superstars fill out their rosters with players at the minimum salary level to avoid the bite of the greater luxury tax.

In 2002, the owners and the players were able to agree to terms without a work stoppage. The agreement, which was reached only after significant compromises by both sides, appears to be a good one. It does not solve all of baseball's problems; for example, there will still be substantial revenue disparities among franchises and, therefore, a competitive imbalance of teams on the field. But the parties went far toward improving the game's economic health, and the owners, players, and fans will harvest the benefits of the agreement in the years to come. □

Notes

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[1] Tom Verducci, "Let's Make a Deal," *Sports Illustrated*, Aug. 5,

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[2] Michael K. Ozanian and Kurt Badenhausen, "Baseball Going Broke? Don't Believe It," *The Wall Street Journal*, July 27, 2000, p. A22. The authors are statistics editors at *Forbes* magazine.

[3] *Ibid.*

[4] The Flood Act is reprinted and discussed in Paul D. Staudohar, *Diamond Mines: Baseball and Labor* (Syracuse, NY, Syracuse University Press, 2000).

[5] Ross Newhan, "Owners Told to Zip It," *Los Angeles Times*, Jan. 18, 2001, p. B4.

[6] Bill Chaikin, "Judge Rules in Favor of Twins," *Los Angeles Times*, Nov. 17, 2001, p. B6.

[7] William Nack, "Collision at Home," *Sports Illustrated*, June 4, 2001, p. 74.

[8] For details, see Paul D. Staudohar, "Salary Caps in Professional Team Sports," *Compensation and Working Conditions*, spring 1998, pp. 3–11.

[9] Tom Verducci, "Striking Out," *Sports Illustrated*, Apr. 8, 2002, p. 25.

[10] Ross Newhan, "Commissioner Says 6 to 8 Teams in Peril," *Los Angeles Times*, May 17, 2002, p. B1.

[11] Richard Justice, "Selig: Team May Go Under," *San Francisco Chronicle*, July 11, 2002, p. C1.

[12] Michael K. Ozanian and Kurt Badenhausen, "Baseball Owners, Deep in Debt, Can Still Avert a Strike," *The Wall Street Journal*, July 17, 2002, p. D12. The nine teams mentioned were identified as the Arizona Diamondbacks, Boston Red Sox, Detroit Tigers, Florida Marlins, Milwaukee Brewers, Montreal Expos, Minnesota Twins, Philadelphia Phillies, and Tampa Bay Devil Rays.

[13] Tom Verducci, "Totally Juiced," *Sports Illustrated*, June 3, 2002, p. 37.

[14] Sam Walker, "Which Side Are You On?" *The Wall Street Journal*, June 14, 2002, p. W4.

[15] Gary Klein, "Draft Takes a World View," *Los Angeles Times*, June 4, 2002, p. B8.

[16] This point is discussed in Paul D. Staudohar, "The Baseball Strike of 1994–95," *Monthly Labor Review*, March 1997, pp. 21–27; see esp. p. 26.

[17] Emily Nelson and Vanessa O'Connell, "Baseball Strike Would Leave Marketers Out," *The Wall Street Journal*, Aug. 22, 2002, p. B1.

[18] "Numbers," *Time*, Aug. 26, 2002, p. 23.

[19] Ross Newhan, "Next, A Suit of Pinstripes?" *Los Angeles Times*, Aug. 24, 2002, p. D1.

[20] Don Fehr's memo was provided to me by John Byczkowski, national baseball writer for the *Cincinnati Enquirer*.

[21] Ronald Blum, "Owners Put New Offer on Table," *Los Angeles Times*, Aug. 22, 2002, p. B5.

[22] Sam Walker, "Strike Averted, Baseball Teams Try to Woo Fans," *The Wall Street Journal*, Sept. 3, 2002, p. B1.

[23] John Shea, "Stoppage Avoided for First Time in 30 Years," *San Francisco Chronicle*, Aug. 31, 2002, p. A15.

[24] Tom Verducci, "A Dopey Policy," *Sports Illustrated*, Sept. 16, 2002, p. 27.