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Baseball Salaries and Profits - An analysis

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"These modern ballplayers care about nothing but money. They don't care about their team, or their city, or their fans. In my day they were different."

"...somehow or other they don't play ball nowadays as they used to some eight or ten years ago....I mean that they don't play with the same kinds of feelings or for the same objects they used to."

These are two quotations, one from a fan and one from a former player, one from a few years ago, one from 1868, which demonstrate the continuity of concerns and perceptions that can be found in baseball. From the beginning the cry has gone out that money is ruining the game.

During the past winter, and with a renewed intensity over the past few days, the cry of doom has become deafening. The wailers were out in force in December when Bobby Bonilla signed a \$29M five year contract with the New York Mets. The fact that Bonilla would be earning over \$5M a year, and was the highest paid player in baseball caused tremendous anguish among media commentators who were convinced that the end of civilization was at hand.

Little did anyone realize that only a few weeks down the line, Bobby Bonilla would become the second highest paid player in baseball. On March 2 Ryne Sandberg signed a four year deal for \$28.4M giving him an average annual salary of \$7.1M. Actually it is even better because Sandberg will receive \$3M up front in the form of signing bonus. Invested wisely it will bring much more than the \$3M over the life of the contract.

Almost unnoticed in the shuffle Barry Larkin of the Reds signed a five-year \$25.6M deal, which brought his salary in just a shade under Bonilla. Also breaking the \$5M barrier were Jack Morris, Roger Clemens, and Dwight Gooden. Just two years ago Kirby Puckett of the Twins became the first \$3M man in baseball. He was the highest paid player in baseball for a few days. By the end of the 1991 season thirty-four players had reached the \$3M mark. In addition 127 players were making more than \$2M, and 225 players, out of a possible 750, were making over a million dollars a season.

The numbers are in truth staggering. What is more staggering is the fact that salaries in baseball have been at these stratospheric levels for only a few years. The average salary in 1969 was \$24,909, then it jumped to \$512,804 in 1989, a percentage increase of 2,599. The minimum salary in 1971 was \$12,500 and it jumped to \$100,000 in 1991.

Two major factors have changed the face of baseball economics. First, there has been an enormous increase in revenues for baseball: The numbers of fans attending games; the amount they spend on concessions and parking; the marketing of team merchandise; the sweet deals teams have for stadium rental and control of stadium revenues; all have been factors contributing to the profitability of the game. But easily the biggest factor increasing revenues has been television. Salaries and TV revenues have been running virtually neck and neck. At the top of the line is network television and the Billion dollar deal with CBS, sweetened by a \$400M deal with ESPN. That is \$14M per team per year. This is followed by local TV contracts for both commercial and cable telecasts.

The second factor changing the face of baseball economics was the appearance of Marvin Miller as the head of the Major League Baseball Players Association. It was Miller's tremendous skill as a labor negotiator which changed the way in which the rising revenues were distributed. As a result the players share of the profits has increased dramatically, while the owners share has dropped. This has led the owners to cry out that the players are destroying the game, that the game cannot possibly survive this disastrous development. This cry has been heard across the land for the past decade, a decade in which baseball has known its most prosperous years.

In 1981 the poorest franchise, the Seattle Mariners, was valued at \$13M, in 1989 at \$79M, and after losing massive amounts of money over the past three years, or so it is claimed, the Mariners will sell for about \$100M in the next few months. This is very close to the asking price for a new franchise in the National League.

Lest you think that there is something deceptive about these figures for the value of a franchise, consider other factors. In 1985 the Wall Street Journal reported that television revenues in baseball more than covered players salaries. In 1988 the Minnesota Twins home ticket sales exceeded the player salaries by some \$5M. In 1989 the largest payroll in baseball belonged to the Dodgers at \$22M, while stadium income and TV revenue was an

estimated \$70M. As Whitey Herzog once said, "There's no way---if you draw two million people---that you can lose money. Unless you're trying."

One other important factor in the profitability of baseball, or any other professional sports franchise, is the fact that team owners can depreciate player employment contracts for federal income tax purposes. This brings enormous savings of real money to the team owners, thus increasing profit.

All of which is to say that the problem, if there is a problem, is not that player salaries are too high, or out of hand, but rather that the entire revenue picture may be out of wack, and that baseball generates too much revenue. I have yet to hear this said, and I have yet to hear anyone suggest that any particular owner is making too much money.

On Sport and Society this is Dick Crepeau reminding you that you don't have to be a good sport to be a bad loser.

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