It Happens Every Spring

Baseball's invisible hand is stuck in red tape.

By Dan Lewis

Baseball season is upon us. That means the moaning about the sport's economic disparity has likewise gotten underway. Don't you know that big-market teams such as the Yankees (winners of the last three World Series) have a far greater revenue base than teams such as the Reds? Don't you know that small-market teams can't afford elite players, so the Alex Rodriguezes of the world take high-end contracts elsewhere? Don't you know it's a classic case of market failure that can only be cured by stronger regulation and revenue sharing?

Hoping to tame the monster that is the economics of baseball, major league officials have instead managed to add a few more heads to the hydra.

Not exactly. Revenue sharing would indeed help equalize disparities, but baseball's woes are caused by too much regulation, not by too little.

There are two basic paths to revenue sharing: Slowly but surely move team ownership rights into one solitary commissioner's office, or empower teams by removing all restrictions on forfeiting and relocation. The first path, the "Baseball Dictator" idea, is the one Major League Baseball is currently pursuing, in the oxymoronic name of "competitive balance." But the latter path would yield real, self-regulating change.

Imagine, for a moment, a sunny June day in New York. The relatively poor Minnesota Twins are scheduled to visit Yankee Stadium, where they will undergo a ritual shellacking. But the Twins have other plans. They tell the Bronx Bombers that they will forfeit the game unless they get compensation for schlepping to the House That Ruth Built. Why should the Twins put out, especially since they will see no money from the sale of tickets, parking, concessions, and broadcast rights? It's only fair they get something—the Twins, after all, are essential to the enterprise. Without them, there is no game and no payday for the Yankees. Facing such a prospect, the Yankees would have no choice but to offer the visitors a cut of the profits.

Stop imagining, and allow reality to set in. The Twins—and, for that matter, the other 29 major-league teams—are required to field a team for every scheduled game. If they don't, the league levies a hefty fine. This rule grants large-market teams a clear advantage, since they get more out of each home game.

But visiting teams should be entitled to a cut of per-game profits, since they contribute to the wealthy home teams' profits just by showing up. As President George W. Bush—a former owner of the Texas Rangers—once told the Associated Press, "You're no good in the big market unless the small market teams come to play." If small market teams could simply forfeit away games *sans* penalty, the George Steinbrenners of the sport would be quick to offer them a cut of local revenues. Add to this the fact that teams cannot freely relocate to new cities. The small-market Cincinnati Reds cannot simply move to the Dallas/Ft. Worth metro area. Baseball's ownership would never approve such a move, thus forcing the Reds to remain eternally tied to Cincinnati, while the Texas Rangers maintain a monopoly in the Dallas area.

So let the Reds change locales. The Rangers would object, but to no avail. Only two things would prevent such a move: the fact that "Ft. Worth Reds" is a pretty pathetic team name, or a big, fat check from Ranger owner Tom Hicks made out to the Cincinnati ownership. Absent the right to bar other teams from muscling in on his territory, Hicks would have to compensate the Reds to prevent them from splitting his market. De facto revenue sharing would occur.

But it hasn't. Instead, MLB's official blue ribbon panel on the matter is pushing for what's being called a "straight pool plan." That is, a complicated and tough-to-police revenue sharing scheme that includes a "Commissioner's Pool" that would distribute money to small market clubs and a 50 percent luxury tax on payrolls in excess of $84 million. Hoping to tame the monster that is the economics of baseball—and professional basketball and football, for that matter—the task force has instead managed to add a few more heads to the hydra.

The root of baseball's economic problems lies in the restraints on what might otherwise be a free market. The league, as a whole, fails to realize that absent controls on team movement and rules against forfeiture of games, a revenue-sharing system would naturally evolve in one form or another. The key to transforming New York's pastime back into America's is to drastically reduce the powers vested in the central office. Maybe next year.

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