Outside the Lines

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Ballplayer Pay and Performance in the Face of Economic Uncertainty

Part I:
Baseball Player Wages during the Great Depression

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As the economy spirals downward and politicians scramble to assemble a stimulus package one cannot help but glance anxiously at the Great Depression and wonder, as economist Hyman Minsky asked, if "It" can happen again? As intriguing as that question might be, this essay will not be a treatise on the current economy or how it might resemble the Great Depression of the 1930s. It will, however, look at what happened to the wages of baseball players during that period of economic calamity and then attempt to draw some comparisons to the current baseball labor market.

This essay is written in three parts. The first part will focus on the history of player wages during the Great Depression. Part two will concentrate on the current salary climate and what lessons might be learned from the depression, and the final part will look at the relationship between performance and wages over these two eras.

In order to put the Great Depression into perspective the decade of the 1930s is examined relative to its immediate predecessor, the roaring 20s. The analysis of player pay during this period of time is based on a database consisting of 3,700 American League player contracts covering the years 1920-39 and the financial ledgers of the New York Yankees from the same period.

During the 1930s the owners of baseball teams, unlike owners today, had nearly complete control of the labor market. They could very easily respond to market conditions if need be by adjusting salary on a yearly basis. Modern MLB teams, on the other hand, face the player's union and a competitive market. They also have tied their hands, so to speak, with numerous long term contracts, limiting their ability to adjust their payroll in the short run.

From 1920 to 1939, less than 3% of total MLB contracts were for more than one year, and only twice during those two decades did that total exceed 5%. The high water mark for multiyear contacts came in 1920, when a whopping total of 8% of all contracts were of the multiyear variety. The only other time the 5% barrier was breached was 1926, when 6% of total contracts were multiyear. Since free agency was nonexistent and one year contracts were the norm, it was much easier for a team to adjust its payroll from season to season.

Ballplayers, despite the reserve clause, were paid quite handsomely relative to the average American worker. For this reason and the existence of the reserve clause, baseball owners had little fear that the contracts they offered players would be rejected, even if said contract was only for one year, contained little or no raise, and had a ten day termination clause. After all, what would the ballplayer do if he didn't play ball?

Between 1920 and 1939 the average ballplayer earned anywhere from 2.6 to 5.4 times what the average American earned. Not bad for someone who had virtually no bargaining power with his employer. It was

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Player Wages *(Continued from page 1)*

a rare case when a player could exert any pressure on ownership to raise wages by threatening a holdout, so for the most part they accepted the contract offered by their employer. Just for the sake of comparison, at the conclusion of the 2008 season, on the cusp of what is turning out to be the worst recession in at least a generation, the median MLB wage was $1.24 million, more than 35 times the median American wage of $34,750.

So, given the bargaining advantage enjoyed by owners, what happened to wages during the Great Depression? We would expect salaries to be impacted by revenues, which decreased in the face of a dramatic decline in attendance. In the pre television days of the 1920s and 1930s team revenues were driven almost entirely by attendance. Ticket revenues and concessions were both directly related to attendance. Advertising revenues, whether in programs or on outfield walls, were related to expected attendance. Using the New York Yankees as a guide, we know that ticket sales alone accounted for more than two-thirds of total revenue during this period, ranging as high as 92% in the years before Yankee Stadium opened.

An interesting pattern emerges when we look closely at attendance during this era (Figure 1). AL Attendance fell from just over five million in 1920 to less than 3 million in 1933. The downward trend was steady from 1924, when the AL drew 5.25 million (an average of 657,000 per team), until 1933, when it bottomed out at 2.93 million. For the next three seasons attendance rose, before suffering another setback, falling from 4.7 million in 1937 back to 4.2 million in 1939.

Note that attendance began to decline well before the onset of the depression, which began in 1929. Attendance decreased every year between 1924 and 1933 except for 1929 and 1930. By 1937 it had actually recaptured most of what it had lost since 1924. With attendance and revenues decreasing during the decade from 1924 to 1934 what happened to salaries?

Despite the fall in wages, ballplayers were still doing quite well, especially when compared to the average American, whose wage fell further and faster

Salaries responded with a lag to the drop in attendance. Even though attendance dropped each year from 1925 to 1928, salaries increased each of those years and continued increasing to their peak in 1931 before falling for three consecutive years to a level 81% of the 1931 salary. This fall accompanied another precipitous decline in attendance, which reached its nadir in 1933, while salaries bottomed out

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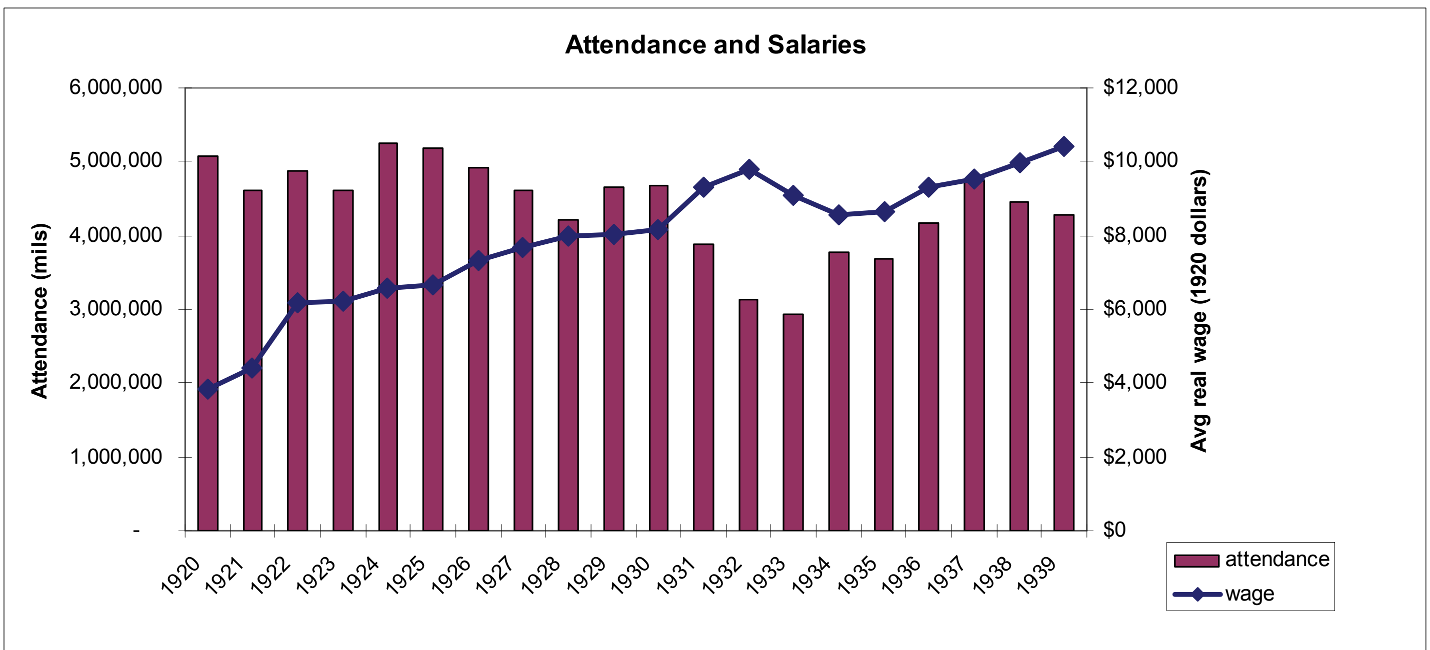

Figure 1

Player Wages *(Continued from page 2)*

in 1934. Salaries climbed steadily for the next five years even though attendance experienced another set-back at the end of the decade.

Despite the fall in wages, ballplayers were still doing quite well, especially when compared to the average American, whose wage fell further and faster during the 1930s. A falling wage is not necessarily indicative of a fall in purchasing power during an economic downturn. It depends on what is happening to the price level. During deflation, when prices are falling, the purchasing power of income can increase even if wages remain unchanged. In fact, even when salaries fall, they may increase in real terms if prices fall faster. That is what happened in 1930, as prices fell by 2.5% and player wages fell by 1.7%.

Since prices fell more than wages, the wage decrease actually resulted in a salary with greater purchasing power. Thus even though average MLB wages fell from $4,685 to $3,883, those lower wages purchased more food, housing and clothing than the higher wages had the year before. It was even more dramatic in 1932. The general price level fell by more than 10%, so even though MLB wages fell by almost 6%, real wages actually rose by more than 5%. In the general economy workers were not so fortunate. Nominal wages fell in five years during the 1930s, and only once was the decrease less than the fall in the price level.

While ballplayers saw slight decreases in their salaries and a slight decrease in their purchasing power in 1933 and 1934, they fared much better than the general populace. They did not experience double digit rates of unemployment and their salaries grew relative to the average American salary (Figure 2). We can see that MLB salaries increased much faster than average wages between 1920 and 1939. It was during the 1920s that the great separation occur. During that decade MLB wages more than doubled, while non agricultural wages increased by 21%. During the 1930s MLB wages increased by another 27%, almost all of it in the first two years, while general wages only managed an 8% gain.

"It seems then that owners did not reduce salaries anywhere near as much as their revenues declined."

During the depression (1929-39) attendance fell by 8% and player salaries retreated by 5%. Decreases to be sure, but rather modest decreases given that unemployment quadrupled from 4 to 16% and the economy, as measured by Gross Domestic Product, contracted by 11% over the same time span. As noted earlier

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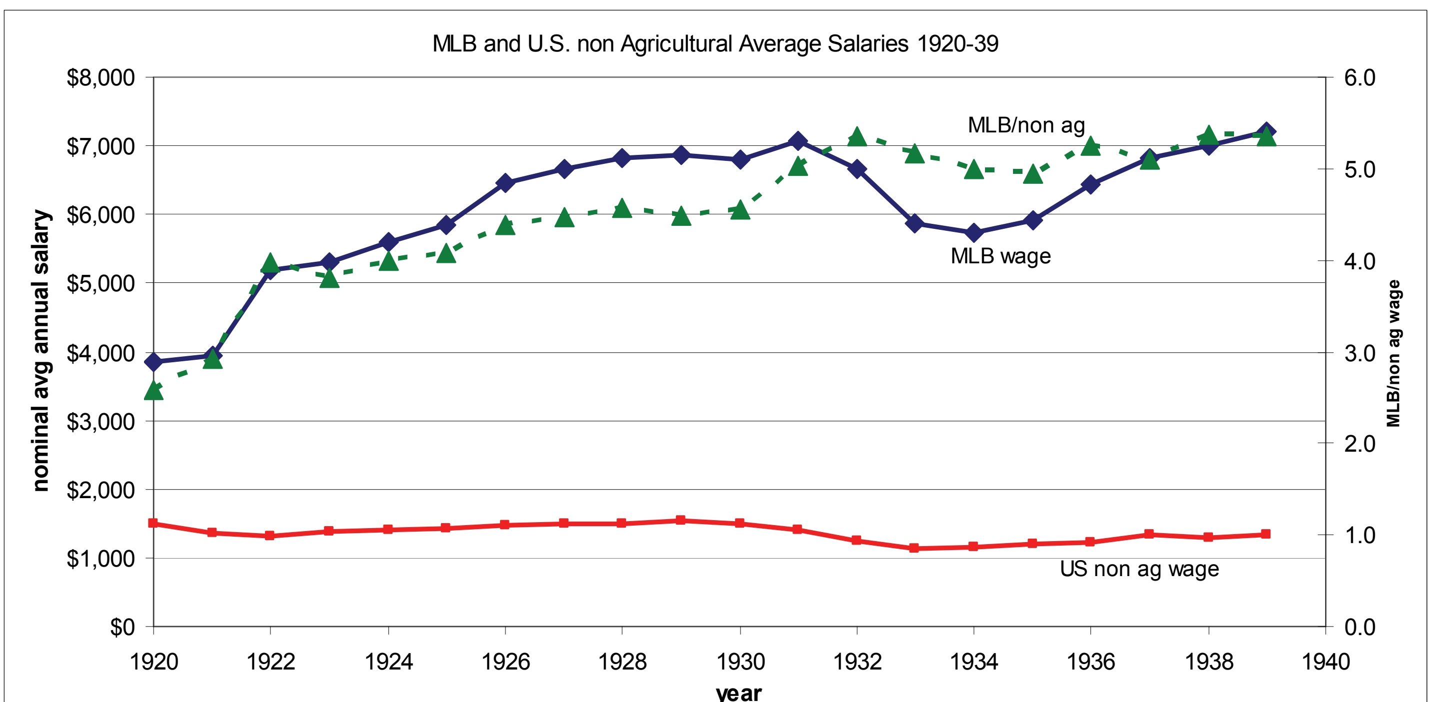

Figure 2

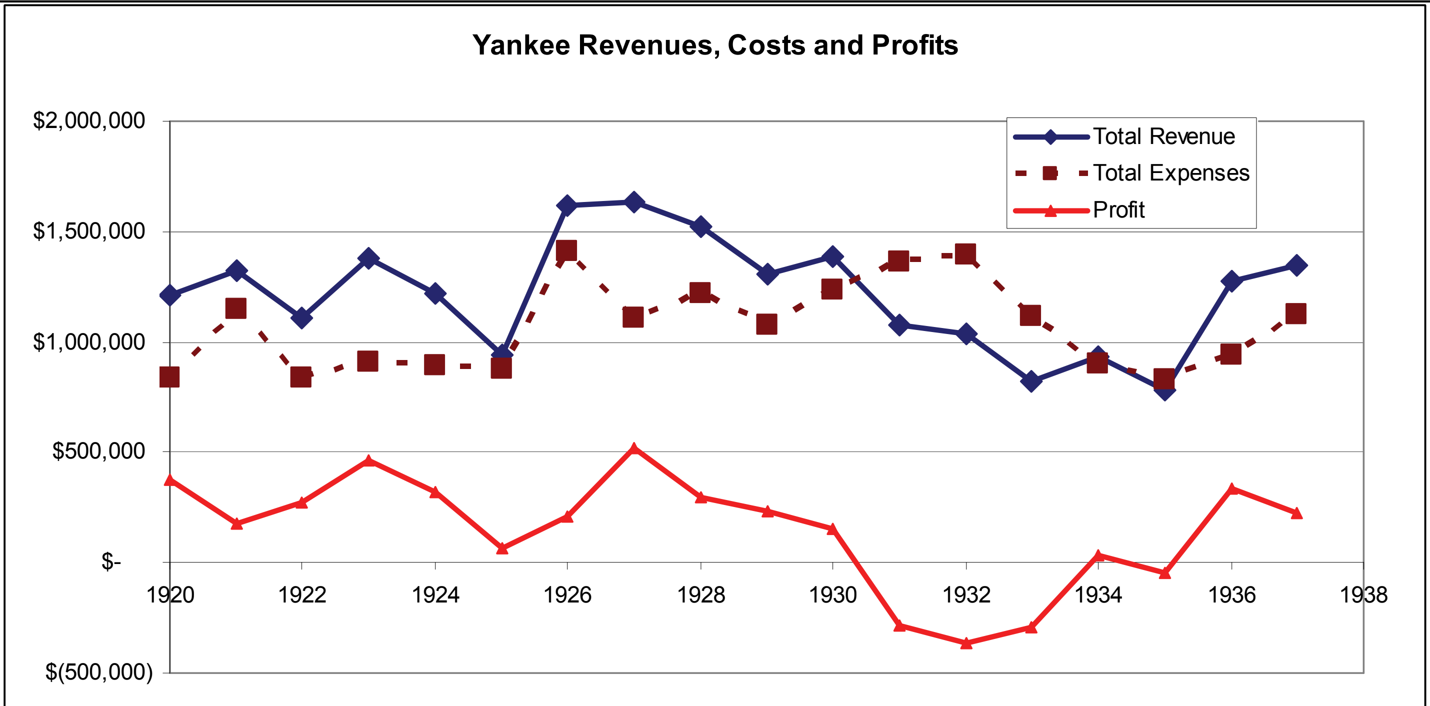

Figure 3

Player Wages *(Continued from page 3)*

however, attendance began to fall well before the depression, and in fact it started to recover midway through it. If we look at attendance from its high point in 1924 to its low point in 1933 the change is startling. Attendance in 1933 was 44% lower than it was in 1924. During that same ten year period wages fell by a mere five percent. It seems then that owners did not reduce salaries anywhere near as much as their revenues declined.

It was important for owners to control labor costs in the face of plummeting revenues because of their sizeable impact on the balance sheet. Referring again to the Yankees ledgers we see that labor costs ranged

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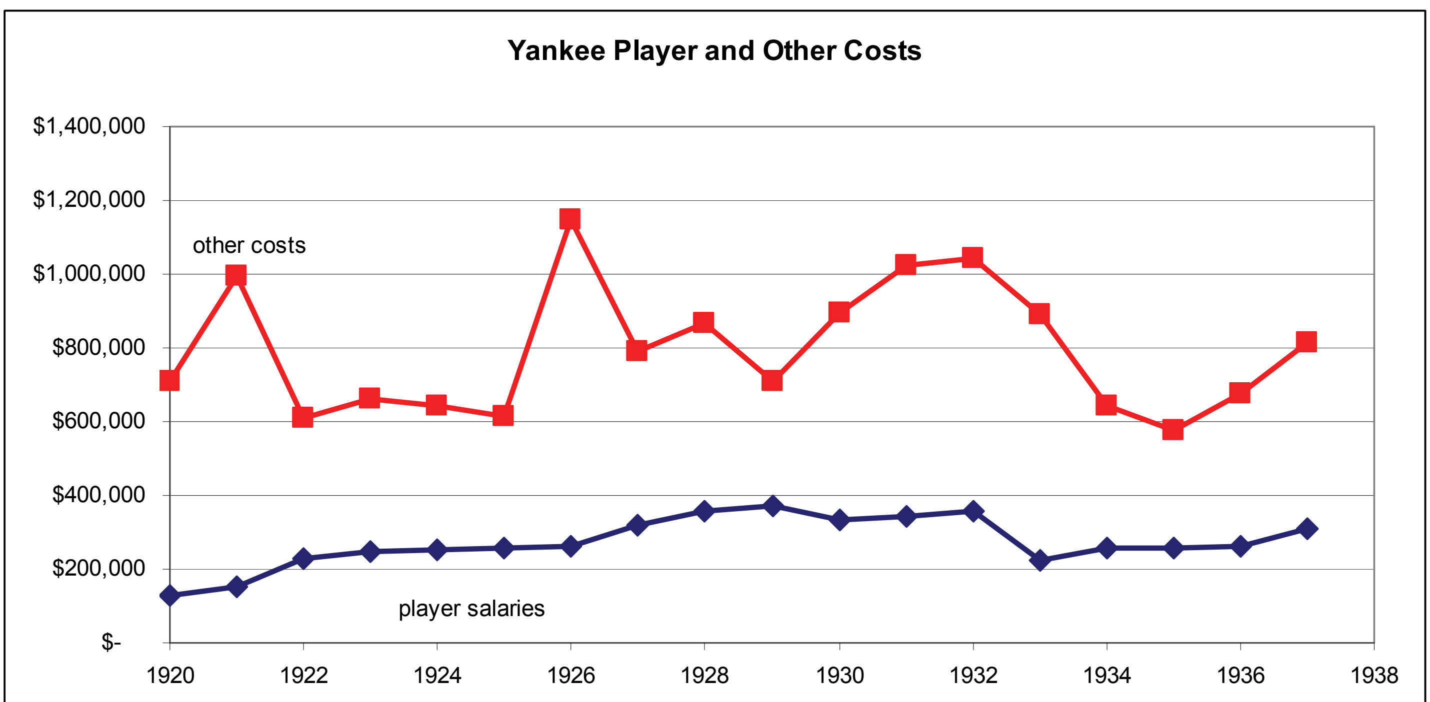

Figure 4

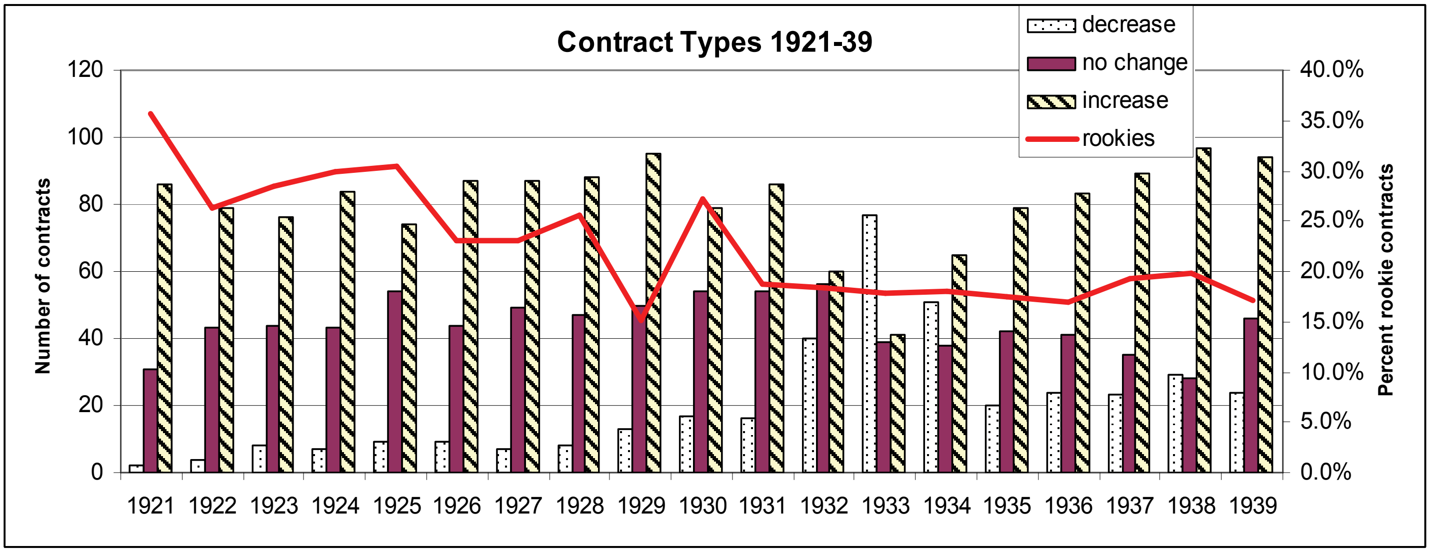

Figure 5

Player Wages *(Continued from page 4)*

from 10% to 28% of total revenues during the 1920s and in the 1930s they were between 21% and 35%. Salaries remained steady at about 28% of total costs during the entirety of the two decades. Yet salaries did not decrease as much as revenues. The Yankees, for example, saw total revenues decrease by 49% between 1927 and 1933 (Figure 3), yet they decreased salaries by less than 30%. Costs other than player salaries actually increased slightly over this period (Figure 4), thus the Yankees paid for their decrease in revenues with a decrease in profits of more than 150%.

While average wages decreased, it was rare for any player to receive a pay cut from his team. This apparent statistical anomaly is accounted for by roster composition. Owners seldom reduced a player's salary, which makes sense according to economist Truman Bewley. In his labor market studies Bewley found that employers were more likely to fire unproductive workers rather than reduce their wages. He argued that this made sense because it was better to get rid of an unproductive worker rather than keep an unproductive and unhappy (due to a wage decrease) worker poisoning the work environment. In addition, firing unproductive workers also serves as a signal to other workers
.

When an owner determined that a player was no longer performing at a level worthy of his salary, he was more likely to waive him than cut his salary. When he was waived, he was likely to be replaced by a lower cost player, and the
lowest cost players were almost always rookies.

Figure 5 illustrates the relationship between changes in player salaries and the number of rookies on the payroll. The bar graph consists of three bars for each year, representing the total number of contracts (left hand scale) that had a salary increase from the previous season, a salary decrease from the previous season, and the same salary as the previous season. It is immediately apparent that in most years salary increases vastly out number decreases. In fact, only in 1933 did owners reduce more salaries than increase them, and 45% of those decreases occurred when a player changed teams.

The right hand scale goes with the line graph, which represents the percentage of total contracts in a given season that were issued to players who were not in the league the previous season. While this is often a contract issued to a rookie (as labeled on the graph) it may also be a player with previous MLB experience who was in the minor leagues the previous season. It is easy to see the pattern here. During the 1920s the percentage of rookie contracts fell from 35% to 18%, where it remained for the next decade. The preference

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Player Wages (Continued from page 5)

for veteran players increased during the 1920s, but remained largely unchanged during the depression decade. It appears that owners, rather than reduce player salaries, relied on the “waive and replace” method of reducing overall payroll. During the decade AL teams turned over about 20% of their roster each year, bringing in cheaper talent on a regular basis. In this way they were able to lower payroll without having to resort to outright salary cuts very often.

There are ways of reducing labor costs without reducing wages. Owners could increase the number of monthly contracts, decrease multiyear pacts and change bonus clauses in ways that reduced their overall exposure during an economic downturn. We will examine each of these possibilities in turn to get a more complete picture of baseball labor markets during the depression.

Owners did not increase their reliance on monthly contracts over the entire period. In fact, teams reduced the percentage of contracts they issued as monthly contracts throughout the 1920s and then slowly began to increase them during the 1930s. So, while the use of monthly contracts did increase during the depression, they actually decreased during the latter half of the 1920s while attendance was plummeting. Bonus clauses exhibited a similar pattern. There were so few multiyear contracts issued in those days so as to make their behavior largely irrelevant (Figure 6). None the less, as one would expect, as the economy worsened, teams proved even less willing to make long term commitments to players.

The types of bonus clauses used changed as the economy worsened. During the 1920s the popularity of performance clauses in player contracts dominated other clauses. Player performance was sometimes rewarded directly, as in Ernie Shore’s 1920 contract, which promised him a $500 bonus if he won 15 games (he did not) and the Yankees finished 1st or 2nd (they did). Another example is Benny Bengough, whom the Yankees promised $1,000 for each 25 games he caught in 1930. He caught 44 games, earning $1,000 in bonus money on top of his $5,000 salary. Performance could also be rewarded indirectly. For example, a bonus awarded to a player who was still on the roster at season’s end. Good effort bonuses virtually disappeared in the early 1930s, and then became popular again as the economy worsened in the latter half of the decade.

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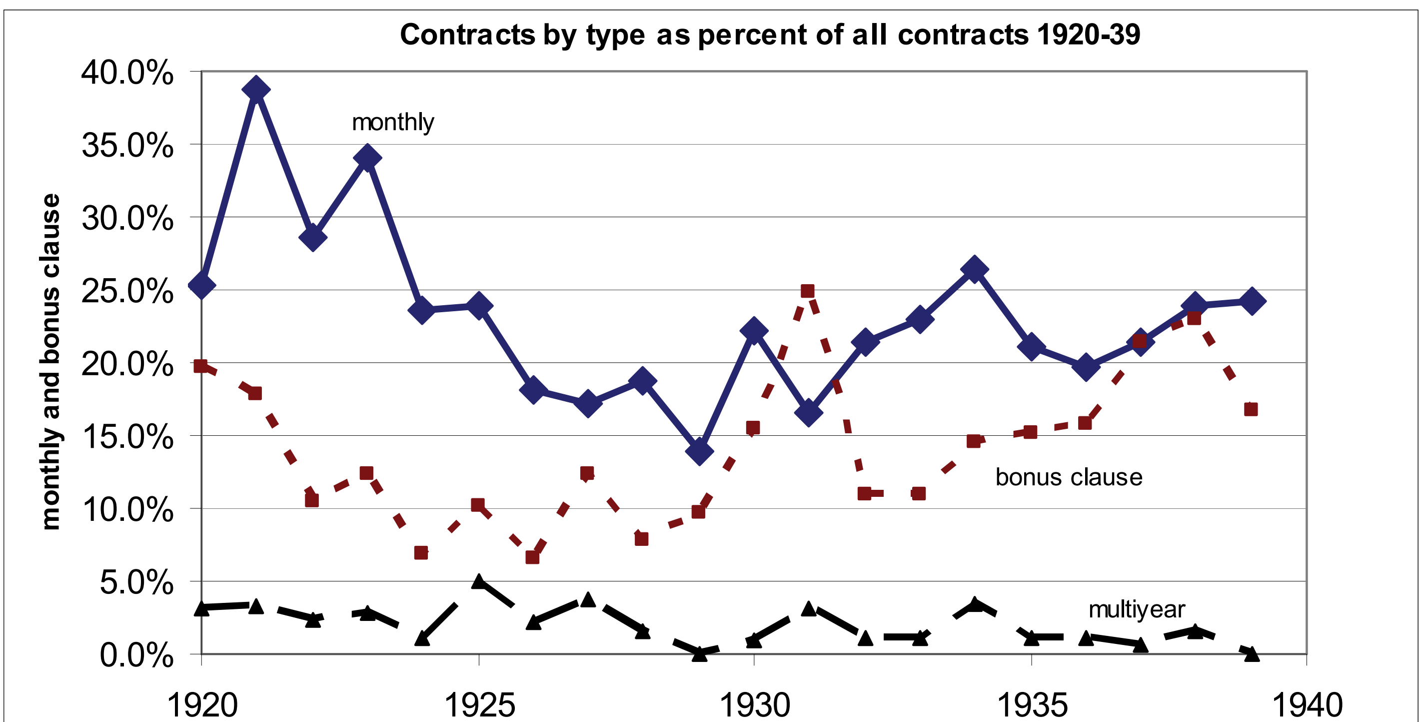

Figure 6

Player Wages *(Continued from page 6)*

As the economy worsened, the popularity of attendance bonus clauses increased. They were largely nonexistent until the depression began to bottom out. Only one contract between 1920 and 1933 had an attendance clause. Beginning in 1934 they became more popular, peaking at 45% of total bonus clauses by 1939. (Figure 7) Unfortunately for the players, these attendance bonus clauses were seldom met (only six of 29 such clauses added to contracts in 1938-39 were met, and all were by either the Indians or Red Sox) and were often unrealistic. For example, the Browns promised Billy Sullivan a $750 bonus (nearly 10% of his season salary) if they drew 300,000 fans in 1938. That was wishful thinking on the part of the Browns, as they saw barely more than 130,000 fans that year. Or perhaps it was smart negotiating, since the Browns had not seen even as many as 250,000 fans since the 1928 season, a distant memory. The White Sox were the most frequent users of attendance bonus clauses, including them in a dozen contracts (40% of the total) during those two years. It cost them nothing.

Those few players who had multiyear contracts fared better than their one year brethren. They averaged $12,600 per year, more than twice the $5,900 averaged by others. On the other end of the scale, players on monthly contracts not only held more precarious positions than those with annual pacts, but their pay averaged only about one third that of the $7,200 average for annual contracts. It was always better to have more security, and that security was generally accompanied by a higher salary.

So, what have we learned? The Great Depression, as expected, did have a negative impact on wages, but not in the way we might think. Wages did not decrease in response to decreasing attendance. It wasn't until the conclusion of a decade of attendance decreases that wages finally slipped, and even then their purchasing power held its own as the price level fell even faster. Real wages decreased only slightly from 1932 to 1935 as owners finally responded to falling attendance by decreasing wages. Wage decreases during the depression were mild compared to both average wages and falling attendance. Owners controlled labor costs through the use of monthly contracts, bonus clauses and sparse use of multiyear pacts. Overall, the impact on wages was mild. Whether the baseball industry is recession proof is still open to interpretation. But we do know that baseball salaries proved quite resistant to the general calamity in the economy. This news should bode well for current players.

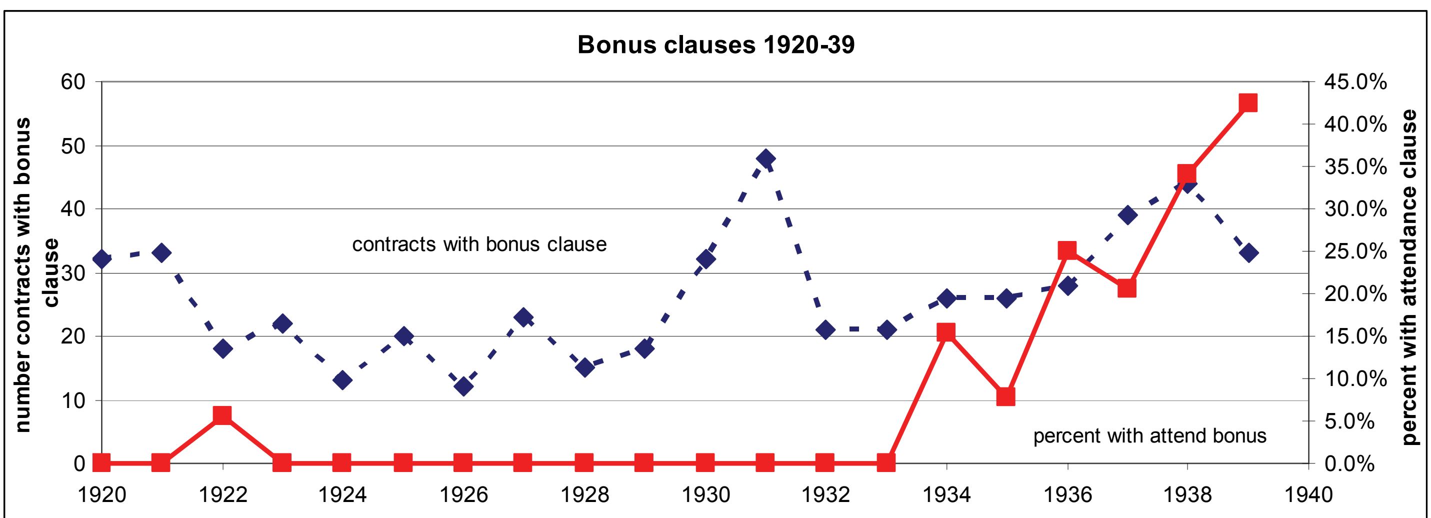

Figure 7

Business of Baseball Committee

The Business of Baseball Committee co-chairs are Gary Gillette (GGillette@247Baseball.com) and John Ruoff (jruoff@bellsouth.net). Ruoff edits *Outside The Lines*.

The committee's website is at http:\\www.businessofbaseball.com. Ken Cherven is our webmaster, while Brian Borawski will serve as editor of the site. You should stay in touch with the site as we improve the look and add content.

The Committee's discussion group, BusinessofBaseball, is on YahooGroups. If you are a member of the Committee and want to join, go to http://sports.groups.yahoo.com/group/BusinessofBaseball/ or send an e-mail to Business of Baseball-subscribe@yahoogroups.com.

From the Editor

This issue of *Outside the Lines* includes an excellent article by Michel Haupert on baseball wages during the Great Depression.. We thank Mike for his continued willingness to share his work with us.

The next issue of *Outside the Lines* will come out in the Summer. We are always looking for high quality research on the business side of the game. The deadline for the Summer issue is September 1. If you have research that you would like to share with us, please contact me at jruoff@bellsouth.net.

John Ruoff
Co-Chair Business of Baseball Committee
Editor, *Outside the Lines*

BoB at SABR 39

The Business of Baseball Committee will meet Friday afternoon, July 31, at SBR 39 in Washington, DC.

See you there.