Outside the Lines

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Chairman's Letter

Thanks to all who attended the Business of Baseball Committee's annual meeting during the Louisville convention. Some developments from the convention:

New Co-Chair. A hearty welcome to **Claudia Perry,** new Co-Chair of the Business of Baseball Committee. Claudia, who also co-chairs the Women in Baseball Committee, has held numerous SABR offices and is our only four-time *Jeopardy* champion. In real life she's a pop music critic at the Newark *Star-Ledger*. Claudia can be reached at 311 York Street, Jersey City, NJ 07302, or at Rockdog59@aol.com.

Proposed Business of Baseball Award. At our annual meeting, **Don Coffin** proposed that the Committee establish an annual award for excellence in research into the business of baseball. The award -- a cash prize of approximately $200, raised through sponsorship or donations -- would be given annually at the SABR convention. Don and I believe that such an award could raise the Committee's visibility among academics and other non-SABRites researching in our field, attracting new members and encouraging non-members to send copies of their work to the Committee. Some details of Don's proposal:

- All research published or completed during the previous calendar year would be eligible.
- Candidates need not be SABR members, and may be nominated by others or nominate themselves.
- Winner chosen by an Awards Committee of 3-5 Business of Baseball members, or members of a sponsoring organization.

I'll be submitting a formal proposal to the SABR Board at its September meeting. Until then, I welcome any comments or suggestions you may have. Ideally, I'd like to have a business publication underwrite the award in return for naming rights (the "SABR/*Business Week* Award") -- if you have connections at any such publications, please let me know!

SABR "Experts Directory." The meeting of research committee chairs discussed the creation of a SABR "experts directory" for use in fielding media queries. If you consider yourself an expert in any aspect of the business of baseball -- "expert" defined as the level of knowledge you'd want someone quoted in the newspapers as an authority on the subject to possess -- drop me a note with your areas of expertise and preferred method of contact (mail, E-mail, telephone).

Major League Notes

Paul Beeston named chief operating officer of Major League Baseball. Beeston, outgoing president of the Toronto Blue Jays, was named on July 22 to a post which oversees MLB's business operations. Beeston's arrival at MLB's New York office is expected to result in the ouster of Greg Murphy, head of Major League Baseball Enterprises, and could encourage the owners to name Bud Selig permanent Commissioner. In other moves, MLB named Jackie Robinson's daughter Sharon as its director of educational programming and extended the contracts of league presidents Gene Budig and Leonard Coleman by three years, through 2002, and raised their salaries to roughly $650,000/year. [Editorial comment: What is Selig's mystical hold over his fellow owners? With an experienced insider like Beeston handling day-to-day operations, MLB should be rebuilding its public image by naming a widely respected outsider as Commissioner. And given the inherent conflict of interest between the roles, no owner should <u>ever</u> serve as Commissioner.]

Owners, Financial World paint very different pictures of MLB's profitability. *Financial World*'s annual survey estimates that the average MLB team earned $7.3 million in 1996 on revenues of $66 million, and that the average team is now worth $134 million, a 17% increase over 1996. But in late July, MLB claimed a collective loss in 1996 of $185 million ($6.6 million/team) on revenues of $1.85 billion. How to account for the difference? Well, Paul Beeston, MLB's new chief operating officer, once admitted, "Anyone who quotes profits of a baseball club is missing the point. Under generally accepted accounting principles, I can turn a $4 million profit into a $2 million loss and I could get every national accounting firm to agree with me."

Professional Baseball Agreement renewed for 10 years. In the document setting forth the relationship between the majors and the minors, MLB has guaranteed not to reduce the number of farm teams. In return, the minors have assumed responsibility for umpire development (which cost the majors an estimated $5 million/year) and have agreed to pay about $500,000/year more in uniform and equipment expenses. The minors will also pay the majors 3.5% of their ticket revenues in 1998 and 1999, 4% in 2000 and 2001, and 4.5% thereafter -- a change from the previous graduated formula which is expected to generate about the same total revenue. The agreement is scheduled to run through 2007, but can be reopened as early as 2003.

Elderly veterans receive pensions. MLB awarded pensions of $10,000/year to approximately 75 major league and Negro League veterans who retired before 1947, when the pension plan was established.

Atlanta: Effective December 31, 1997, WTBS transforms itself from a superstation to a basic cable network. The move, which will for the first time allow WTBS to collect subscriber fees directly from cable systems, will be accompanied by a reduction in national Braves telecasts from about 125 to about 90/season.

Boston: Another new-stadium controversy. City officials want the Red Sox to rebuild and enlarge Fenway Park, while the Red Sox favor a new site in South Boston. Fenway could celebrate its centennial before this one's resolved.

Cincinnati. The Reds continue to spar with city and county officials over the location of their proposed new park. The team wants a location on the Ohio River near downtown, while government has offered a site in the Broadway Commons district, a mile or so away.

Detroit. The Tigers plan to break ground late this year on a $260 million, 40,000-seat stadium.

Florida. Announcing that the Marlins will lose $30 million in 1997, owner Wayne Huizenga announced that the team was for sale. When asked whether his figures included revenue from the luxury boxes in the stadium he also owns, Huizenga said that this money was excluded because it went to repay the bondholders who financed the stadium. Can the rest of us use Huizenga-style accounting to persuade the IRS that the part of our salaries used to pay mortgages and auto loans isn't really income?

Houston. Surprise! The Astros are reporting cost overruns on their proposed new stadium, The cost of the proposed retractable-roofed park has already risen from $250 million to $273 million. When local officials balked at contributing more than the agreed-upon $180 million in taxpayers' money, the Astros persuaded local businessmen to help make up the difference.

Los Angeles. As Rupert Murdoch moves closer to buying the Dodgers, Peter O'Malley has indicated he's willing to remain as club president following the sale. One article suggested that Murdoch may be considering former junk-bond king Michael Milken to run the team -- which would mean that the Dodgers and the Yankees, arguably MLB's two marquee franchises, would both be operated by convicted felons.

Minnesota. With the Minnesota legislature balking at the team's proposal for a $350 million retractable-roof park, the Twins have hired an investment banker to advise them on a possible move or sale of the franchise. At its June meetings, MLB's Executive Council had directed the Twins to "explore all options open to them regarding the sale and/or movement of the franchise."

San Diego. An Arthur Andersen study commissioned by the City of San Diego has concluded that the Padres and MLB contributed $172.2 million to San Diego County in 1996, and created 3,654 full- and part-time jobs. **John Matthew**, who works at Arthur Andersen, has requested a copy of the study from its author.

The Docket

Players must be paid during suspensions. In one of his last acts as MLB's impartial arbitrator, Nicholas Zumas ruled on August 11 that all players are entitled to their full salary during suspensions -- even if provisions in their own contracts say otherwise. Zumas' decision, in a case involving Ron Gant, Terry Pendleton and Xavier Hernandez, follows his decision of June 1996 which required owners to pay suspended players who had signed the standard contract. Zumas' decision relied upon language in the CBA which permits additional clauses in the standard player contract only if they provide actual or potential benefit to the player.

Fay Vincent's ghostwriter sues to issue Vincent's "memoir" under his own name. Although the ex-Commissioner backed out of his $300,000 book contract when his manuscript was 90% complete, collaborator David Kaplan has sued in White Plains, NY federal court for the right to publish the work himself. Kaplan, a senior writer at *Newsweek*, contends that since he and Vincent agreed that they would jointly own the copyright in the book (tentatively titled *Baseball Breaks Your Heart*), he can use the material even without Vincent's permission.

Retired players sue MLB over publicity rights. At least three suits are now pending. One filed on behalf of 400 retired players has recently been certified as a s class action: this one alleges that MLB is shortchanging the retirees on the royalties due under a contract signed by all parties. Two other actions seek to deny MLB any right to publicize old-time players without their consent. Until 1947 the standard player contract did not grant MLB the right to exploit the players' publicity rights -- one action on behalf of pre-1947 players argues that MLB never obtained their right of publicity, while another, by Al Gionfriddo on behalf of post-1947 players, contends that MLB's rights lapsed when the player retired.

Restructuring The Majors and the Minors

Citing a popular mandate invisible to most outside observers, Acting Commissioner for Life Bud Selig is pressing for the wholesale realignment of Major League Baseball along geographic lines. These plans have been discussed:

Status quo: Current alignment, with Arizona placed in the NL West and Tampa Bay in the AL West to create three five-team divisions. Unbalanced schedule with 56 games against divisional rivals (14 each), 90 against teams in the other divisions (9 each) and 16 interleague games (3 games against each of four teams in the corresponding division and a four-game, home-and-home series against the fifth. Ideally the home-and-home series would involve a natural rivalry such as the Mets-Yankees or Cubs-White Sox

Minimal: Status quo, except with Kansas City and Houston switching leagues (Kansas City to the NL Central, Houston to the AL West), Detroit moving to the AL Central and Tampa Bay placed in the AL East. Same schedule as above.

Moderate: 16-team AL and 14-team NL, with the Reds, Expos and Giants joining the AL and the Rangers and Royals joining the NL. Three divisions with current playoff format. NL East: Atlanta, Florida, New York Mets, Philadelphia, Pittsburgh. NL Central: Chicago Cubs, Colorado, Kansas City, St. Louis. NL West: Arizona, Houston, Los Angeles, San Diego, Texas. AL East: Baltimore, Boston, Montreal, New York Yankees, Tampa Bay, Toronto. AL Central: Chicago White Sox, Cincinnati, Cleveland, Detroit, Milwaukee, Minnesota. AL West: Anaheim, Oakland, San Francisco, Seattle. Schedule unknown.

Extreme: Selig's preference: a 14-team American League and 16-team National League organized geographically, with more than half of all teams switching leagues. Two divisions in each league, with four-team playoff including division winners and either the runners-up or the two non-winners with the best records. AL East: Baltimore, Boston, Montreal, New York Mets, New York Yankees, Philadelphia, Toronto. AL Central/South: Atlanta, Cincinnati, Cleveland, Detroit, Florida, Pittsburgh, Tampa Bay. NL Central: Chicago Cubs, Chicago White Sox, Houston, Kansas City, Milwaukee, Minnesota, St. Louis, Texas. NL West: Anaheim, Arizona, Colorado, Los Angeles, Oakland, San Diego, San Francisco, Seattle. Unbalanced 162-game schedule: 14-team AL would feature 96 games against divisional rivals (16 each), 42 against teams in the other division (6 each), and 24 interleague games (3 against each team in one of the other league's divisions), while a club in the 16-team NL would play 93 divisional games (13 or 14 against each rival), 48 against the other division (6 each) and 21 interleague games.

Selig commissioned a poll of 801 self-described baseball fans, which found:

- 62% of respondents "strongly" or "somewhat" favored geographic realignment, with 31% opposed. (I'd love to know how the pluses and minuses of realignment were described. New York fans who like the idea of a Mets-Yankees rivalry may not like the prospect of 16 home games with the Expos, or seeing the Giants, Dodgers or Mariners for one three-game series every two years.)
- By a 59-40% margin, fans agreed that realignment would destroy the continuity of league records and the historical makeup of the two leagues. (The 40% must also believe that Elvis is alive.)
- Respondents said that realignment would cause them to go to an average of five games/season, up from 3.5. (This would translate to a 43% increase in attendance -- about as likely as Jerry Reinsdorf replacing Donald Fehr as head of the MLBPA.)

But the background questions revealed a number of problems with the sample group. Before the interview, 70% hadn't known that MLB was considering realignment -- which means that their responses were based entirely on information provided by the questioner. 44% didn't know the Arizona Diamondbacks or Tampa Bay Devil Rays, who were awarded franchises 2-1/2 years ago. 13% weren't familiar with the Colorado Rockies or Florida Marlins, now in their fifth seasons. 48% said they planned to attend fewer than two games in 1997.

Undeterred, Bud Selig defended wholesale realignment: "Its logic is overwhelming when you think about it. Like everything in life, it has its pluses and minuses. We believes the pluses far outweigh the minuses. This is returning to our roots. This is that way it was." (Since MLB's "roots" have *never* included geographic alignment, Bud apparently believes he's running a minor league.)

Triple-A restructures. With much less fanfare or turmoil, the three AAA leagues adopted a dramatic restructuring plan which dissolves the American Association, reallocating its teams between the other two AAA leagues to create a 14-team International League and a 16-team Pacific Coast League. Buffalo, Indianapolis, Louisville and a new club in Durham, NC will join the International League, while Iowa, Nashville, New Orleans, Oklahoma City, Omaha, and a new Memphis club join the PCL, which will be split into four divisions.

75 Years of National Baseball Broadcasts

1997 marks both the 50th anniversary of the first World Series telecast and the 75th anniversary of the first World Series radio broadcast. Here's how much MLB has realized from its national TV and radio deals:

1922-33	World Series broadcast nationally with no rights fee charged.
1934-37	World Series radio rights to Ford for $100,000/year.
1938	World Series radio rights "sustaining."
1939-45	World Series radio rights to Gillette for $100,000/year.
1946	World Series radio rights to Gillette for $150,000.
1947	**World Series rights to Gillette: $65,000 TV, $175,000 radio.**
1948	**World Series rights: $140,000 TV, $150,000 radio to Gillette; All-Star Game TV rights for $2,500.**
1949	**World Series rights: $200,000 TV, $150,000 radio to Gillette; All-Star Game TV rights for $25,000.**
1950	World Series rights: $800,000 TV, $175,000 radio to Gillette; $50,000 more for All-Star Game.
1951	World Series rights: $925,000 TV, $150,000 radio; All-Star Game $110,000 from radio and TV.
1951	ABC airs the first prime-time network baseball series: two hours on Saturday nights, May-September, showing the *women's* professional league.
1952	World Series: $925,000/$200,000 .
1953	World Series: $925,000/$175,000/$100,000 for pregame TV. Cleveland, Philadelphia and Chicago White Sox authorize ABC to telecast a Saturday Game of the Week from their parks over a 17-station network. These aren't "national" broadcast contracts, though; like other weekend baseball telecasts through 1964, they're assembled through negotiations with individual teams to telecast games from their home parks. Until the Sports Broadcasting Act of 1961, antitrust laws barred "pooled rights" TV contracts negotiated with a central league broadcasting authority.
1954-55	World Series: $925,000/$150,000/$100,000 pregame.
1956	World Series: $925,000/$125,000/$100,000.
1957-61	Five-year NBC/Gillette contract: MLB gets $3 million/year for the World Series, $250,000 for the All-Star Game.
1962-66	Five-year contract with NBC, paying $3.5 million/year for World Series TV/radio, plus $250,000 for All-Star Game (doubled in years with two All-Star Games).
1965	Networks reject MLB's proposed Monday night Game of the Week package, but ABC pays $5.7 million for a Saturday/holiday Game of the Week. Package, covering all teams except the Yankees and Phillies (who have their own deals), calls for two regionalized games on Saturdays, Independence Day and Labor Day, blacked out in the home cities of the clubs playing those games. This package ends NBC's Saturday-Sunday Game of the Week, and limits CBS's to the 12 weekends when its new subsidiary, the New York Yankees, play at

home. At the end of the season, ABC declines to exercise its $6.5 million option for 1966, citing poor ratings, especially (and not surprisingly) in New York.

1966-68: NBC signs a three-year contract covering the 1966-68 regular seasons, 1967-68 World Series/All-Star Game (it already owned rights to the '66 Series/ASG). NBC pays roughly $6 million/year for the Games of the Week, $6.1 million for the 1967 Series/All-Star Game and $6.5 million for the 1968 events, bringing the total value of the contract up to $30.6 million. The Game of the Week includes 25 Saturday and three Monday night telecasts.

1969-71: NBC buys rights to the 1969-71 Game of the Week, All-Star Game, LCS and World Series for $49.5 million. Game of the Week includes the same 25 Saturday and three Monday night games as before

1972-75: NBC signs a four-year, $72 million contract covering 10 Monday night games (with local blackout), 26 Saturday afternoon games, All-Star Game, LCS and World Series, with all weekday Series games played at night.

1976-79: NBC and ABC pay $92.8 million for a four-year contract. ABC pays $12.5 million/year to show 16 Monday night games in 1976, 18 in next three years, plus half the postseason; NBC pays $10.7 million/year to show 25 Saturday Games of the Week and the other half of the postseason. Networks alternate playoffs/All Star Game and World Series. CBS Radio pays $75,000/year for rights to the postseason games.

1980-83: NBC and ABC pay $175 million to renew their packages for another four years. In addition, in 1980 22 teams (all but the Braves, Astros, Mets, Cardinals) take part in a one-year cable deal with UA-Columbia, airing a Thursday night Game of the Week in markets at least 50 miles from a major league park. The deal earns MLB less than $500,000, but leads to a new two-year contract for 40-45 games per season.

1984-89: NBC and ABC sign TV deal covering 1984-89. ABC airs Monday night games and some late-season Sunday afternoon games, plus half the postseason; NBC, 30 Saturday afternoon games and a few prime-time, plus the other half of the postseason. At one point, CBS was interested in a pact which would have called for three interleague games every Thursday night (only), with AL East teams playing the NL East, AL West playing the NL West. Breakdown:
1983 - $20 million in advance from the two networks
1984 - NBC $70 million, ABC $56 million, total $126 million.
1985 - NBC $61 million, ABC $75 million, total $136 million.
1986 - NBC $75 million, ABC $66 million, total $141 million.
1987 - NBC $81 million, ABC $90 million, total $171 million.
1988 - NBC $90 million, ABC $96 million, total $186 million.
1989 - NBC $106 million, ABC$125 million, total $231 million.
$9 million/year more in any season with best-of-seven LCS (adopted in 1985).

1990-93: **CBS pays $1.1 billion for 1990-93 rights: $275 million/year for the World Series, LCS, All-Star Game and 12 regular-season weekend games. CBS loses more than $400 million on this contract. ESPN pays $400 million for 1990-93 cable rights to** six games/week (Sunday, Wednesday and doubleheaders on Tuesdays and Fridays, plus holidays). CBS Radio pays $50 million for 1990-93 radio rights to a Game of the Week plus ASG, LCS and World Series.

1994-95: **MLB, ABC and NBC form a joint venture called The Baseball Network. The venture, scheduled to run through 1999, is terminated by agreement after two years. Under the agreement, the** networks pay no rights fees; instead, MLB receives 87.5% of the first $160 million/year in net revenues, 1/3 of the next $30 million, and 80% of revenues above $190 million/year; the networks get the rest. CBS had offered $130 million/year to renew its previous contract, and WTBS had offered $40-$45 million/year for rights to another round of playoffs. The Saturday Game of the Week is abolished; regular season telecasts are limited to regionalized night games in the final 12 weeks of the regular season, to be split between the networks. Each year one network gets the All-Star Game and LCS; the other gets the first-round playoffs and World Series. The first-round playoffs and first five games of the LCS are regionalized. MLB also signs a six-year, $255 million contract with ESPN for a Sunday night Game of the Week and Wednesday night doubleheader**, and a six-year, $50.5 million contract with CBS Radio.**

1996-2000: **MLB signs new contracts with Fox, NBC, ESPN and Fox/Liberty Media Cable:**
Fox: $575 million for three World Series, two All-Star Games, one LCS per year, five first-round playoff games per year, and a Saturday afternoon Game of the Week with one-hour pregame show, half of which is directed to children. The Game of the Week features up to four regionalized telecasts, with exclusivity from 1-4 PM in each time zone. The Game of the Week begins Memorial Day weekend in 1996 and 1997, but may start earlier in future years.
NBC: $400 million for two World Series, three All-Star Games, one LCS per year and three first-round playoff games per year. No regular season telecasts. (The difference between the Fox and the NBC contracts implicitly values Fox's Saturday Game of the Week at less than $90 million for five years.)
ESPN: $440 million for a Wednesday doubleheader and Sunday night Game of the Week, as well as all postseason games not aired on Fox or NBC. MLB staggers the times of first-round games to provide a full-day feast for viewers: ESPN could air games at 1 PM, 4 PM and 11 PM EDT, with the broadcast networks telecasting the prime-time game.
Fox/Liberty Media Cable: $172 million for two games/ week in 1997-2000. This joint venture airs games on its choice of two weeknights other than Wednesday, with no exclusivity.

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Baseball-Related Bills Pending in Congress

H.R. 9 (Rep. Serrano): Would waive certain aspects of the Cuban embargo to allow Cuban nationals to come play professional baseball in America.

S. 53, the "Curt Flood Act of 1997" (Sens. Hatch, Thurmond, Leahy and Moynihan), and H.R. 704, the "Major League Baseball Antitrust Reform Act of 1997" (Representative/Hall of Famer Bunning and Rep. Conyers): Would apply the antitrust laws to professional baseball, except that the antitrust status of the following matters would remain as it is now:

(a) "the applicability or nonapplicability of the antitrust laws to professional baseball's amateur draft, the minor league reserve clause, the Professional Baseball Agreement, or any other matter relating to the minor leagues";

(b) "the applicability or nonapplicability of the antitrust laws to any restraint by professional baseball on franchise relocation;" and

(c) the application of the Sports Broadcasting Act of 1961 (which authorizes sports leagues to pool their TV rights to create a national network TV package).

On August 1, the Senate Judiciary Committee voted, 11-6, to send this bill to the full Senate for consideration.

HR 1744, the "Freedom of Movement for Baseball Teams Act of 1997" (Reps. Schumer and Nadler): Would apply the antitrust laws to prevent baseball teams or leagues from blocking franchise relocation. [Editorial note: This bill, introduced in connection with one of many "bring the Dodgers back to Brooklyn" speeches by local politicians with too much free time, could be called the "Dodger Fans Tilting at Windmills Act of 1997." While the Pirates or Twins would be worth much more in New York, these starry-eyed fans want the dominant team in the #2 market to abandon a stadium it owns for one yet unbuilt.]

Book Review: Baseball Economics 101, by **Doug Pappas**

Stee-rike Four! What's Wrong with the Business of Baseball?, edited by **Dan Marburger**. Westport, CT: Praeger Publishers, 1997: 218 pp. hardcover. $55.00 list. Available directly from the publisher: Greenwood Publishing Group, P.O. Box 5007, Westport, CT 06881-5007, 1-800-225-5800/.

In the aftermath of the 1994-95 labor dispute, many of the economists who contributed to *Baseball Economics -- Current Research*, reviewed in the last issue of *OTL*, have prepared this informative layman's guide to the issues which have come to dominate the Hot Stove League over the past quarter century. *Stee-*

rike Four! should be required reading for the economic illiterates who dominate the newspaper, radio and TV discussion of the business of baseball.

For the frustrated fan who wonders why every round of labor negotiations ends up threatening the season, **Dan Marburger** explains that neither side has a reason to modify its negotiating position unless it believes the other will soon inflict harm through a strike or lockout. James Richard Hill points out that "skyrocketing" salaries actually demonstrate MLB's overall economic *health*, while John L. Fizel shows that free agency has had little or no effect on competitive balance. Sometimes the authors disagree: James Whitney endorses greater revenue sharing, while **Lawrence Hadley** and Elizabeth Gustafson say that small-market owners are unlikely to spend the added money on veteran players. However, a potentially intriguing debate on the merits of preserving baseball's antitrust exemption suffers from exemption supporter William F. Shughart's reliance on anti-government rhetoric in lieu of analysis. Rodney Fort and **Andrew Zimbalist** discuss one consequence of this exemption, the owners' ability to leverage their control over the number and location of franchises to extract enormous public subsidies for new stadia.

As the first layman's guide to baseball economics written after the 1994-95 cataclysm, *Stee-rike Four!* deserves a larger audience than an expensive hardcover from an academically-oriented press is likely to receive. Perhaps Praeger could be persuaded to publish a paperback edition?

Roster Changes

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