Outside the Lines

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Chairman's Notes

Welcome, new subscribers! A nice mention of *Outside the Lines* in Allen Barra's column in the online magazine *Salon* prompted numerous subscription inquiries from non-SABR members. *Outside the Lines* is now available by subscription to non-SABR members for $8.00/year. All proceeds are used to defray SABR's cost of printing and mailing the newsletter.

See you in Boston. The annual meeting of the Business of Baseball Committee will be held at the SABR convention in Boston. At press time, our meeting is scheduled for 10 AM Friday, June 28. The next afternoon will feature a panel of minor league owners and former major league GMs, including Lou Gorman, Bob Howsam and Roland Hemond. Hope to see you there!

MLB Notes

MLB reports operating losses of $232 million in 2001; *Forbes* estimates $76.7 million profit. According to figures released in connection with Commissioner Selig's testimony before Congress in December, MLB lost $519 million on revenues of $3.5 billion. This figure includes $232 million of operating losses, $112.5 million of interest, and $175 million of "non-operational charges such as amortization of debt." MLB's numbers show that between 1995 and 2001, total revenues rose 156%. Player salaries increased by 113% during this period, while other expenses jumped 134%.

Several months later *Forbes* released its annual survey of baseball economics. It concluded that far from losing over $200 million last year, MLB's 30 clubs turned a collective $76.7 million profit. Selig termed the *Forbes* numbers "pure fiction." An MLB immediately accused *Forbes* of practicing "the type of journalism one expects from a supermarket tabloid," prompting Twins player representative Denny Hocking to crack, "Gee, should I believe a magazine that spends 365 days a year researching finances, or someone who has zero credibility?"

Opening Day salaries up 5.2%. The average salary is now $2,382,779, while the median declined from $975,000 to $900,000. According to the AP's Ronald Blum, the average salaries in the other major team sports range from $4.2 million in the NBA to $1.43 million in the NHL and $1.1 million in the NFL.

Ticket prices rise 3.8%. *Team Marketing Report* says that the average ticket to a major league game now costs $18.31, up from $17.64 in 2001. Three clubs, the Red Sox, Cubs and Padres, increased ticket prices by more than 10%, while the Royals, Tigers, Devil Rays and Braves actually lowered the cost of their average seat. Boston remains by far MLB's most expensive market -- its average ticket price of $39.68 is 61% higher than second-place Seattle's $24.60 -- but even Red Sox seats average $10 less than the average seat to an NFL, NBA or NHL game.

MLB plays Musical Owners in Boston, Florida, Montreal. When the plan to contract the Twins and Expos fizzles, Expos owner Jeffrey Loria sells his club to MLB for $120 million. He then reinvests the proceeds, plus $38.5 million loaned him by MLB, to buy the Florida Marlins. The Marlins are for sale because their owner, John Henry, led the group which was awarded the Boston Red Sox. At one point Henry simultaneously owned the Marlins, had a deal to buy the Red Sox and held 1% of the Yankees.

Robert DuPuy replaces Paul Beeston as MLB's President/COO. Beeston resigned in mid-March, reportedly after seeing his authority in labor negotiations undercut by Commissioner Selig. DuPuy, a former partner in Milwaukee's Foley & Lardner, served as MLB's principal outside counsel under Selig before becoming MLB's Executive Vice President-Administration and Chief Legal Officer in 1998.

Commissioner Selig covers up his own violation of MLB rules for six years; owners shrug.

Major League Rule 20(c) forbids any owner from loaning money to another owner unless the loan is disclosed to the Commissioner and approved by the other clubs. This January, the Minneapolis *Star Tribune* disclosed that in 1995, then-Acting Commissioner Selig borrowed $3 million from a lender controlled by Twins owner Carl Pohlad without disclosing it or obtaining the approval of other owners. When the loan came to light, newly appointed MLB executive vice president Bob DuPuy – formerly Selig's personal lawyer – insisted Selig had done nothing wrong because the loan was promptly repaid. White Sox owner Jerry Reinsdorf said of the rule, "If we choose to enforce it or not enforce it, that's our business. It's not a federal statute." Way to build confidence in the integrity of your business, guys. It was later disclosed that Pohlad had also loaned money to a business controlled by Rockies owner Jerry McMorris, and that the Cardinals had borrowed from a bank controlled by Reds owner Carl Lindner.

Labor talks underway. Press reports suggest that although the parties have agreed to change the amateur draft to reduce draftees' leverage and to increase the percentage of local revenues to be shared, they remain far apart on most issues. The MLBPA is expected to meet in early July to set a strike date. Let's hope the next newsletter, to be published around Labor Day, will carry details of the new CBA.

MLB settles Minnesota contraction suit. The settlement, which must still be approved by the Metropolitan Sports Facilities Commission, provides for the Commission to drop its action against MLB and the Twins in return for a guarantee that the Twins will play in the Metrodome through 2003. MLB came to terms when it became clear that Judge Harry Seymour Crump would direct MLB to produce financial data requested by the Commission.

Contraction grievance to be decided by mid-July. Arbitrator Shyam Das says he'll try to rule on the MLBPA's grievance by mid-July. The union claims that MLB cannot contract without its permission; MLB insists that while it must bargain the effects of contraction with the MLBPA, it does not need the union's consent to contract. If the MLBPA wins, contraction is dead for now; if MLB wins, the battle over the effects of contraction (MLB wants a draft of players from the affected organizations, while the MLBPA argues they should all become free agents) will likely keep Das busy well into the 2002-03 offseason.

Around the Majors

Disney negotiating possible sale of Angels to Donald Watkins. Watkins, who would be MLB's first African-American owner, has made a preliminary offer of $250 million for the Anaheim Angels. Although Watkins' true net worth has been the subject of considerable speculation, UBS PaineWebber has agreed to back him with a $150 million "credit arrangement." No deal will be completed until a new labor agreement is signed.

Diamondbacks secure $160 million of new capital. Four investors recruited by Jerry Colangelo have agreed to buy 49.5% of the team for $16 million/year in each of the next 10 years. Colangelo will retain 1%, while the club's other investors will control the remaining 49.5%.

Red Sox sold to third highest bidder. After a bidding process described as a "bag job" by the Attorney General of Massachusetts, John Harrington, trustee of the Yawkey Trust, sold the Red Sox, Fenway Park and 80% of the NESN cable network to a group including Marlins owner John Henry, former Padres owner Tom Werner, former Senator George Mitchell and The New York Times Company. The purchase price of $700 million (including assumption of $40 million in debt) was the highest ever paid for a major league team, but was $90 million below the bids submitted by Charles Dolan of Cablevision and a syndicate headed by Miles Prentice. To settle the Attorney General's investigation of the sale, the winning bidders agreed to contribute another $30 million to charity.

Cubs battle neighbors over new seats. The team wants to add close to 2,000 seats to the outfield bleachers. Owners of the buildings across the street from Wrigley Field, many of whom sell space on their roofs for several times the price of a seat in the park, have objected to the effect such seats would have on their views, presumably under a theory of "you have no right to stop me from freeloading."

Rockies' owners pay $35 million for 23.7% of club. The bankruptcy judge presiding over the estate of bankrupt uranium trader Oren Benton approved the sale of his share of the Rockies to owners Jerry McMorris and Charles and Dick Monfort -- though not before suggesting they had wrongfully withheld financial information to discourage others from bidding for the shares.

Marlins swap John Henry for Jeffrey Loria. Loria paid $158.5 million for the club, the same price paid by Henry when he bought the Marlins from Wayne Huizenga in 1999. The well-liked Henry had been

unable to strike a stadium deal with local authorities before September 11, raising grave doubts that Loria will be able to do so anytime soon. The price paid by Loria includes a $38.5 million loan from Major League Baseball; if the Marlins don't get a new stadium within five years, MLB will forgive $15 million of the loan and charge no interest on the remainder.

Astros now the Minute Maidens? After paying $2.1 million to buy out the remainder of Enron's 30-year, $100 million naming rights contract, the Astros re-sold their naming rights, for about the same price, to the Houston-based orange juice subsidiary of Coca-Cola. For the next 28 years the Astros will play at Minute Maid Park. This sets up a potential Citrus Showdown interleague series against the Devil Rays, who play in Tropicana Field.

Royals, Cardinals ballpark bill dies in legislature. The lower house of the Missouri legislature adjourned for the year without voting on a bill, passed by the Missouri Senate, which would have contributed $210 million over 30 years for a new St. Louis park and $$294 million over the same period to renovate the Royals' Kauffman Stadium and the NFL Chiefs' neighboring Arrowhead Stadium.

Brewers' park more expensive than previously disclosed. A state audit concluded that the cost of Miller Park and related infrastructure had risen to $413.9 million, 28.5% above the original $322 million budgeted in 1995.

Twins win Round One of 15-round battle for new stadium. The innovative plan approved by the Minnesota legislature calls for a $330 million state loan to build the park. The Twins would immediately pay $120 million to begin retiring the loan. A local city interested in building the park would need voter approval to contribute $12 million/year from taxes on local bars, restaurants, hotels and parking. In return for paying all operating expenses, the Twins would receive all revenues from the facility.

The park remains contingent on (1) a local government approving the necessary taxes, (2) MLB committing to keep the Twins in the new park for at least 30 years, (3) certification from state officials that there are "reasonable prospects" for meaningful economic reform within MLB, and (4) Twins' ownership agreeing to the $120 million upfront payment. Current Twins owner Carl Pohlad won't make such a commitment, and at least one prospective purchaser, Clark Griffith, says it's too much to pay. (The Twins claim that Alabama businessman Donald Watkins, who had expressed interest in the Twins before turning his attention to the Anaheim Angels, never showed them he had the resources to consummate a deal.) Further complicating matters, the bill forbids countywide taxation, which prevents Minneapolis from competing for the park unless its residents repeal a 1998 law which imposed a $10 million limit on the city's contribution to any sports facility.

Expos lose owner, employees, office equipment. When MLB bought the Expos from Jeffrey Loria and arranged for him to take over the Florida Marlins, Loria was allowed to take the Expos' coaches, trainers, staff, computers and scouting reports with him. Fortunately for the Expos, new manager Frank Robinson has forgotten more about baseball than Loria and his stepson/executive V.P. David Samson ever knew.

Bloomberg kills Giuliani stadium pacts for Mets and Yankees. In one of his last acts before leaving office, New York Mayor Rudy Giuliani struck tentative deals to build new stadiums for the Mets and Yankees at a combined cost of $1.6 billion. The city would finance the parks through tax-exempt construction bonds; the teams and the city would split the cost of debt service 50-50. A week after succeeding Giuliani, Michael Bloomberg killed the deals. He did, however, agree to honor Giuliani's pledge that the city would pay each club $5 million/year for the next five years for design and planning costs.

Mets appraised at $319 million in connection with sale. Co-owner Nelson Doubleday triggered the appraisal by exercising a put option in the club's partnership agreement, forcing Fred Wilpon to buy his half of the club for its appraised value. The appraisal disappointed Doubleday, who reportedly thought the Mets were worth $500 million.

Yankees' cable network heads to court. Before Opening Day, the new Yankees Entertainment & Sports (YES) network had deals with all but one of the cable systems in metropolitan New York. Unfortunately, that one was Cablevision, which controls (a) 40% of the market and (b) the MSG Network, the Yankees' former TV partner. Cablevision offered to carry YES as a premium channel, or on the same basis as it offers MSG and Fox Sports New York; YES demanded $2/subscriber and carriage on the "expanded basic" service purchased by nearly all Cablevision subscribers. While the other systems had accepted YES's terms, their contracts provide that they will get the benefit of any better deal struck by Cablevision. YES has filed a federal antitrust suit against Cablevision.

Oakland loses best chance for downtown park. In mid-May the Oakland City Council voted to construct 807 housing units on the 12-acre plot most frequently mentioned as a possible new home for the Athletics. Oakland Mayor Jerry Brown supported the bill after a consultant concluded that even if the Athletics' owners agreed to pay $146 million toward construction, the proposed $400 million park would still leave the city on the hook for at least $174 million.

Cardinals lose Missouri stadium deal, explore possible Illinois home. Days after the Missouri legislature adjourned without approving a bill to finance new parks for the Cardinals and Royals, team officials met with Illinois Governor George Ryan to discuss a potential move to East St. Louis, Illinois. Before the legislative setback, the club had struck a deal with St. Louis officials that called for the team's owners to contribute $138 million towards a new park and $300 million for a "Ballpark Village," a multi-use development adjacent to the stadium.

Padres make final contribution toward cost of their new park. The $450 million, 46,000-seat park, delayed by financing issues and no fewer than 16 lawsuits, is expected to debut Opening Day 2004. The team will pay $146 million of the cost, with the City of San Diego paying $206 million, the Centre City Development Corp., the city's downtown development arm, paying $76 million and the San Diego Port District contributing $21 million.

Devil Rays say they won't be contracted. Managing general partner Vince Naimoli insists the team is solvent. They also have an ironclad lease that runs through 2027, local officials who aren't about to let the Devil Rays get away after being burned by the White Sox and Giants, and a state supreme court decision that MLB's antitrust exemption doesn't extend to franchise relocation issues.

Blue Jays receive $5 million from MLB. The payment is intended to compensate the club for losses sustained as a result of the continuing decline of the Canadian dollar. Owner Rogers Communications says MLB is prepared to discuss a permanent formula to protect foreign clubs against currency fluctuations.

Washington, Northern Virginia interests circling the Expos. Virginia's group is headed bywireless communications magnate William Collins; D.C.'s is led by financier Fred Malek. Both hope to persuade MLB to sell them the Expos, who would play in Robert F. Kennedy Stadium while their new home is constructed. Peter Angelos of the Orioles adamantly opposes a team in Washington, but can't veto it.

Looking Back

125 years ago: In 1877, the NL's second season, the reserve rule had yet to surface...but the owners had plenty of other advantages. The standard player contract provided that the player assumed "all risk of accident or injury, in play or otherwise, and of illness from whatever cause," and "had no claim for wages" for the period in which he couldn't play. Each player was charged $30 for his uniform and required to keep it clean at his own expense -- and rather than receiving meal money while on the road, players had 50 cents/day deducted from their salaries to cover their board.

100 years ago: The Pennsylvania Supreme Court hands the Phillies a major victory in the AL-NL war, enjoining contract jumper Nap Lajoie from playing for the Philadelphia Athletics, or for anyone else except the Phillies. The victory proves short-lived, as the Athletics trade Lajoie to Cleveland, the Ohio courts refuse to enforce the Pennsylvania injunction, and other judges decline to follow the *Lajoie* precedent.

The always-volatile relationship between AL president Ban Johnson and Baltimore Orioles manager John McGraw explodes in midseason. On July 2, Johnson suspends McGraw and outfielder Joe Kelley, declaring, "These disturbers like Kelley and McGraw have got to learn to behave themselves on American League diamonds or every one of them will be put out of the game. . . . Rowdyism will not be tolerated in the American League, however, and the men who disregard the organization rules must suffer the consequences."

Unwilling to suffer the consequences, McGraw jumps to the New York Giants, then tries to destroy the American League. Orioles owner John J. Mahon (Joe Kelley's father-in-law) releases McGraw, accumulates more than half of the club's shares, and sells control of the Orioles to Giants owner Andrew Freedman. Four Orioles, including Joe McGinnity and Roger Bresnahan, join McGraw in New York, while Kelley and Cy Seymour sign with Cincinnati. But Mahon, Freedman and McGraw overplay their hand – the Orioles are left with so few players that they can no longer field a team, which gives Johnson an excuse to declare the franchise forfeited to the American League. For 1903 the club becomes the New York Yankees.

75 years ago: Ban Johnson loses his final showdown with Commissioner Landis. After the 1926

season, Johnson quietly blacklists Ty Cobb and Tris Speaker after former pitcher Dutch Leonard implicates them, along with Joe Wood, in a plot to fix the September 25, 1919 Tigers-Indians game. Landis makes the evidence public and ultimately exonerates Cobb and Speaker. Within days after Johnson declares, "As long as I'm president of the American League, neither one of them will manage or play on our teams," the AL owners back Landis, giving Johnson a leave of absence "for health reasons." The owners had hoped Johnson would quietly fade away, but he returns, lasting only a few months before resigning under pressure.

Reacting to more charges of pre-1920 corruption and game-fixing, Landis establishes a statute of limitations on these offenses. His edict also sets penalties for future offenses: a one-year suspension for rewarding other organizations for wins or betting on baseball games in which the bettor does not have a duty to perform, and permanent ineligibility for betting on any game in which the bettor does have a duty to perform.

50 years ago: The Korean War leads to a government-imposed payroll cap. The Federal Wage Stabilization Board advises clubs that their total payroll for 1952, including players, managers and coaches, must not exceed the higher of the 1951 payroll, or 110% of the salary for the highest year from 1946 through 1950. Roy Mack of the Athletics notes that this rule prevents bad teams from improving themselves; he favors limiting all clubs to the highest salary paid by any club in the league.

25 years ago: In the February 12, 1977 *TSN*, Commissioner Bowie Kuhn opposes greater revenue sharing: "I think the present division is about right. You can't penalize the hard-working club operator or destroy the incentive to field a good club. Network TV revenue is shared equally now and I see no reason to go further in that direction."

Jim Emhoff and Chris Ritz of Wharton warn, "No team is immune from the spectre of bankruptcy" as a result of free agency and the likelihood that non-stars will also seek more money. They warn that salaries could soon triple, and recommend eight reforms: (1) higher ticket prices, (2) narrowing the split of gate receipts, (3) airing all games on pay TV, (4) reducing the number of teams, (5) eliminating the minor leagues, (6) installing buttons on each seat to allow fans to "manage," (7) fill rosters primarily with local players, (8) add more divisions to keep more teams in contention.

The View from Japan, by **Yoshihiro Koda**

The Japanese Leagues started their 2002 season on March 30. The hottest team during the first month of competition was the Hanshin Tigers, a Central League team in Osaka who, after finishing last for the last four years, won their first seven games this season. Even in Tokyo, sporting newspapers reported the Tigers' winning streak on their front page, which is usually devoted to the news of the nation's most popular team, the Giants. Hanshin remained in first place at the end of April.

While the Tigers' unexpected success is the biggest on-field topic the big off-field news is the plan of the Nippon-Ham Fighters, a Pacific League team, to move from Tokyo to the northern city of Sapporo in 2004. (I suggested this move in the Winter 1999 issue of *Outside the Lines*.) A new indoor stadium opened in Sapporo last year, creating an opportunity for the Fighters.

Although the move was welcomed by Japanese baseball commentators, the Seibu Lions, another Pacific League team, complained. Although the Lions make their home in Tokorozawa, a suburb of Tokyo, they had been developing Sapporo as their second home. The Lions opened their 2002 season in Sapporo and are planning to play 20 games there next year. If the Fighters move to Sapporo, the Lions will not reap the benefits of their efforts to develop the market.

I understand the Lions' complaint, but still support the Fighters' plan. Because it means another big city in Japan can catch chances to be a host city for the Japan Series games. I believe the Lions have no plan having some Japan Series games in Sapporo even they would win the league championship. Or if they have, the fans in Tokorozawa might not be satisfied.

Like the World Series, the Japan Series is a best-of-seven-game series between the two league champions. As the Japanese majors consist of two six-team leagues, only two of twelve home cities can host the Japan Series each year. I believe this is the most exciting thing for baseball fans. They cheer their own team with expectation of hosting the Japan Series. But so long as a city is only club's second home, it has no chance of serving as a host city, and baseball will attract less interest from local residents.

Sapporo has a population of more than 1,000,000. It is a market that should be developed. I believe Sapporo should have its team. Then baseball will be more attractive and exciting to the local fans. I hope the Lions understand this and accept the Fighters' plan.

Investing in Bonds and Diamonds: A Study of Baseball's Financial and Competitive Imbalance, by **Donald F. Leypoldt, Jr.**

On November 6, 2001, the owners of Major League Baseball (MLB) voted 28-2 to contract by two teams. This was a 180 degree turn from MLB's previous forty years, in which the league almost doubled in size. The primary driver of the contraction vote was whether or not certain "small market" teams could be competitive, both financially and on the playing field.

Commissioner Allan "Bud" Selig addressed both of these issues in his statement postponing contraction. "The clubs recognize that our current economic circumstances make contraction absolutely inevitable, as certain franchises simply cannot compete and generate enough revenues to survive…We remain committed to obtaining competitive balance in the game, which fans in all our markets say is the top priority, and (we) will take the steps necessary to achieve it."

These two issues, revenue imbalance and competitive imbalance, have seemingly plagued MLB in recent years. After all, from 1980 to 1986, 20 of baseball's 26 teams made a League Championship Series. From 1995 to 2001, only 11 of baseball's 30 teams made an LCS. In 2001, the New York Yankees brought in over $242 million in revenue. This is nearly $28 million more than the 2001 revenues of the Kansas City Royals, Florida Marlins, Minnesota Twins and Montreal Expos combined. On the other hand, MLB's two lowest payroll teams, the A's and Twins, won 58% of their games in 2001. In 1990, three of the four poorest teams (in terms of revenue) were the Braves, Indians and Mariners, who collectively have made seventeen playoff appearances since 1995. Is there a strong financial imbalance in MLB? If so, how does that impact competitive balance on the playing field? This article summarizes the results of an independent paper that studied financial and competitive imbalance in MLB today.

After analyzing team's revenue data, payroll and winning percentage, the paper found:

- From 1990 to 1993, the average team in the World Series (WS) ranked between 12th and 13th (out of 26 ballclubs) in terms of revenue. From 1995 to 2001, the average World Series team ranked 6th (out of 30 ballclubs) in revenue. Payroll numbers had a similar jump, from the average WS team having the 10th highest payroll in MLB in the early 1990s, versus the average WS team having the fourth highest payroll between 1995 and 2001. This means that wealthy teams are making it into the World Series at a much higher rate than their poorer cousins.
- In statistics, the R-squared number measures the correlation of two variables. A low percentage means that there is little correlation; a high percentage means that there is a great deal of correlation. In 1990, the R-squared between a team's revenue and its winning percentage was an insignificant 1.4%. This correlation jumped continuously in the 1990s, topping out at 44% in 1997. It has since leveled off to 26.5% in 2001. While decreasing somewhat in recent years, revenue has become an increasing factor in a team's on-field competitive ability during the last eleven seasons. A similar trend holds true for payroll.
- ·From 1990 to 1994, teams in the top quartile of revenue won 51.5% of their games, while teams in the bottom quartile of revenue won 47.5% of their games. From 1995 to 2001, the gap widens. The wealthiest quartile won 56% of their games, while the poorest quartile won only 46%.

Table One: Winning percentage of MLB teams by revenue and payroll quartile

Revenue	**1990-1994**	**1995-2001**	**Payroll**	**1990-1994**	**1995-2001**
Quartile 1	.515	.558	Quartile 1	.526	.553
Quartile 2	.514	.495	Quartile 2	.500	.517
Quartile 3	.499	.482	Quartile 3	.498	.464
Quartile 4	.475	.460	Quartile 4	.475	.460

The paper concludes that there is an increasing statistical correlation between a team's revenue, payroll and on-field performance. The Blue Ribbon Commission of 1999 states why this is problematic: "Although a high payroll is not always sufficient to produce a club capable of reaching post season play…a high payroll has become an increasingly necessary ingredient of on the field success…The goal of a well

designed league is to produce adequate competitive balance. By this standard, MLB is not well designed."

Table Two: Revenue and Payroll percentile of playoff teams, 1990-2001

REVENUE			
Year	**All playoff teams**	**LCS**	**WS**
1990-1993	54.5%	54.5%	52.4%
1995-2001	70.7%	75.8%	79.3%
PAYROLL			
Year	**All playoff teams**	**LCS**	**WS**
1990-1993	62.4%	62.4%	61.7%
1995-2001	68.1%	80.7%	85.6%

Two business trends in MLB have fueled this phenomenon. The first is the construction of new stadiums, 12 since 1989. Over the past 12 years, gate receipts and venue revenue have accounted for an increasing share of MLB's revenue. Teams with new ballparks averaged $33 million more in revenue in 2001 than teams that did not…despite the fact that three clubs not playing in newer ballparks are the mega-market (and revenue) Dodgers, Yankees and Mets.

A second trend is the cross-ownership of media outlets and teams. In 2001, the Braves, Angels, Cubs, Indians, Dodgers, Rangers and Blue Jays were owned by media companies or media moguls. Several more teams, including the Phillies and Red Sox, either owned their media companies outright or had a joint venture with them. Cross-ownership of the team and media outlet is a great way to "hide" revenue on a team's income statement. As CNN/Money's Chris Isidore wrote, "The teams that have common ownership with their primary broadcasters are choosing to take significantly lower than market prices for these broadcast rights."

Baseball teams hide revenue for two reasons. The first is that it bolsters the argument that baseball is in financial distress. The second is that it keeps the other owners from digging deeper into a team's pockets. Each team has to contribute 20% of its net local revenue into a pot that is split among all thirty teams. "Hiding" revenue keeps these broadcast monies from going to their rivals, while enabling the parent club to pocket it themselves.

Enriched by new stadiums and media deals, ballclubs have reacted by driving up salary levels to dizzying heights. In 1967, the average ballplayer made 2.4 times what the average American brought home. In 2001, the average ballplayer made 36.4 times what the average American made. This spending has contributed to the creation of "haves" and "have-nots" within MLB. In 1990, the average payroll of the highest-spending quartile of teams was $10.5 million greater than the average payroll of the lowest- spending quartile. That year, the big spenders had a 5% greater winning percentage than their quartile four rivals. By 1999, the gap in average salary and winning percentage had grown to $58.3 million and 12.8% respectively. While teams like the Twins, A's and Rangers have brought the winning percentage gap down in the last two years, a high payroll seems to be an increasingly necessary ingredient for a winning team.

Table Three: R Squared between Revenue and Winning Percentage from 1990-2001

1990	**1.44%**
1991	**2.05%**
1992	**0.69%**
1993	**18.74%**
1994	**7.01%**
1995	**29.81%**

1996	**31.96%**
1997	**43.87%**
1998	**33.93%**
1999	**29.25%**
2000	**26.80%**
2001	**26.50%**

(Note: It is easy to spot the outliers. Removing the Orioles, Rangers and A's brings the R-squared to 40% in 2000 and 42% in 2001.)

Statistically, there does appear to be a competitive imbalance in baseball with high revenue and payroll teams versus low revenue and payroll teams. Of course, as any Rangers fan or A's fan of late will tell you, spending a lot of money is no substitute for baseball acumen. As long as the Twins and Expos remain in first and second place respectively (which they were as of this writing), it is hard to argue that they are at a "competitive disadvantage". However, the evidence is mounting that MLB's economic playing field is not level. Owners and players would be wise to copy their colleagues in the NFL and NBA, and try to institute reforms, such as increased revenue sharing, and a salary cap and floor, in order to make the league more equitable to all thirty teams.

The author, a SABR member since 1999, completed this study as part of his coursework for an MBA in finance from Pennsylvania State University. For his next study, he hopes to examine why his beloved Phillies have won only one world championship in 118 years. For a copy of the full report, please contact Len Levin at the SABR research exchange, or e-mail the author at dleypoldt@hotmail.com.

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