



Outside the Lines

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The Continental League and the Push for Expansion in Major League Baseball

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The issue of expansion is somewhat different than the issue of relocation in that it involves a different aspect of Major League Baseball's antitrust exemption. Relocation focuses on the issues outlined in *Raiders I* where the exemption theoretically (although, as discussed previously, not in practice) allows Major League Baseball, as opposed to its brethren in the NFL and other professional sports leagues, to collectively restrain trade in additional markets that otherwise could support a franchise. The exemption's purported effect on expansion is somewhat different in

Excerpted from *The Irrelevance of Baseball's Antitrust Exemption: A Historical Review*, 58 Rutgers L. Rev. 1 (2005).

This is the second of two articles by Mitchell Nathanson on baseball and its antitrust exemption. The first, addressing franchise relocation, was published in the [Spring 2007 OTL](#).

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Finessing the Standard Player Contract

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During the 1998-99 off season free agent Kevin Brown signed what was at the time the most lucrative contract in baseball history. It guaranteed him just over \$106 million for seven years with the opportunity to earn another \$8.4 million through bonus clauses. At the time, Brown's contract drew intense interest because of its largesse and the seeming over-indulgence provided by its bonus clauses. My interest

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Business of Baseball Committee Annual Report—2007

The Business of Baseball committee, founded by the late Doug Pappas in 1994, continues its mission of studying the economic, labor, legal, and organizational side of the National Pastime. As part of that mission, the committee maintains a Website at www.BusinessOfBaseball.com and publishes a quarterly newsletter, *Outside the Lines*.

Gary Gillette and John Ruoff continued as co-chairs of the committee in the past year after Maury Brown resigned. Ruoff also serves as editor of *Outside the Lines*. Ken Cherven volunteered to take over maintenance of the BoB Website and has been updating it, assisted by Brian Borawski and Greg Spira. Everyone that hasn't visited BusinessOfBaseball.com recently is encouraged to check out the new features on the site.

Outside the Lines continued to publish high-quality research with a remarkable breadth of topics including important economic, legal, and historical analyses. These included Michael Hauptert's developing studies of player salaries in the period of integration; Nolan Reichl's examination of regulatory regimes covering agent solicitation of players; Mitchell Nathanson's looks at baseball anti-trust law in the real world; Gary Gillette's and Pete Palmer's analysis of the effect of interleague play on attendance; and Steve Weingarden, Christian Resick and Daniel Whitman's assess-

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ment of leadership qualities of baseball executives--to name just a few of the excellent studies. Other contributors to *OTL* in the past year have included Erik Porse, Bill Gilbert, Scott Roper, Stephanie Roper, Bob Lewis, Phil Birnbaum, and Vince Gennaro.

OTL has also begun co-publishing, with the Minor League Committee, *The Farm Report* edited by Anthony Salazar.

Work continues on the committee's groundbreaking General Managers Project, a compilation of a complete, chronological list of all general managers in major league history. New information being added includes the exact start and end dates and the official titles of older general managers as well as to identifying executives serving as de facto or interim GMs. A complete, chronological list of all major league club presidents in baseball history is also being prepared for publication.

The committee's discussion group (limited to SABR Business of Baseball Committee) features posts/links to articles of interest as well as discussion of many business-related subjects. Members can sign up at <http://sports.groups.yahoo.com/group/BusinessofBaseball/>

Finally, the committee co-chairs have asked the SABR board to appoint Stuart Shea as a new vice-chair, effective as of the board's meeting in St. Louis. Shea is an expert on the history of baseball broadcasters and broadcasting and has volunteered to help the committee compile and publish complete broadcasting histories for each ML club.

The New Business of Baseball Website

If you haven't been to the Committee website at <http://www.BusinessOfBaseball.com>, you are missing a whole new design and lots of new content on the Business of Baseball. [Ken Cherven](#), committee webmaster, has been busy adding features to the site assisted by [Brian Borawski](#), [Greg Spira](#), [Rod Nelson](#), [Steve Weingarden](#) and [Gary Gillette](#).

The most recent additions include the [BoB Bookshelf](#) which will be a collection of committee-written reviews of the most important books on the Business of Baseball as soon as committee members write them. To add a review of one of the listed books, follow the link to it and the click on the book's name. A form in which to rate the book and add your comments will come up.

Steve Weingarden has also provided a bibliography of journals and academic research on the Business of Baseball under the [BoB Reference List](#). This will take users to a page where they can filter by subject and/or topic to sift through the over 500 references Steve has assembled. A user can also page through results and adjust the display for the number of results to view (5, 10, 20, etc.) per page.

On the [Home page](#), you will find a scroll of current new items—which are being provided by [Brian Borawski](#) and [Greg Spira](#). Those news items are archived under [News and Opinion](#). From there, you can sort by date and use a keyword filter to look for specific topics.

You will find the same collections of [documents](#), [interviews](#) and [data](#) which were on the old version of the site.

We expect further announcements of important additions to the website at SABR37 later this week.

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that it theoretically permits Major League Baseball to maintain a monopoly over qualified professional baseball players through its reserve clause such that rival leagues are unable to compete due to the lack of

competent personnel. Thus, it harkens back to *Federal Base Ball* and its shield against rival leagues challenging the legality of the reserve clause through the Sherman Act. However, the reserve clause is irrelevant to the exemption beyond this limited protection. As this discussion will show, because there are at least two ways to circumvent this limitation (through either Congressional repeal of *Federal Base Ball* or judicial review of the reserve clause based on contract law) the exemption provided no protection to the Lords when the issue of expansion through a proposed third major league reared its head in the late 1950's and early 1960's.

If the relocations of the Braves, Browns and Athletics indicated an awareness on behalf of Major League Baseball that its antitrust exemption was not as iron-clad as the Supreme Court in *Federal Base Ball* had made it appear to be, the events leading up to the first-ever expansion in the history of the game demonstrate a complete capitulation by the Lords to the tenets of the Sherman Act in practice if not officially. As this section shows, the Lords were adamantly opposed to expansion and indeed fought it for as long as they could. However, in the end, they were pressured by Congress to act *reasonably* in matters pertaining to expansion even though their exemption permitted them to act otherwise. As a result, along with even more franchise relocation, four new teams were added against their will in 1961 and 1962.

Prior to the 1958 season, the Lords appeared to have solved the problem of western expansion when the Brooklyn Dodgers and New York Giants relocated to Los Angeles and San Francisco respectively. This may have placated west coast baseball fans and Congress temporarily but the moves created an entirely

new web of legal problems for Major League Baseball and the questionable power of its antitrust exemption. As a result of these relocations, New York was left with only one team and with no presence in the National League whereas previously it comprised 25% of the senior circuit. Almost immediately after the departure of the Dodgers and Giants, a push was made to reestablish a National League presence in New York.

Initially, there was speculation that a current National League team such as the Philadelphia Phillies or Cincinnati Reds would simply continue the craze of relocation and move to New York but these possibilities were quickly quashed as it became apparent that, at least in the Phillies case, they were merely using the threat of relocation as a chip to squeeze a new stadium out of the city of Philadelphia.¹ With the possibility of relocation exhausted, the issue of expansion—dormant ever since the rebuking of the PCL back in 1951—once again took center stage.

In an effort to bring another team to New York, Mayor Robert Wagner formed a Mayor's Baseball Committee and appointed William Shea to head it.² With the blueprints for expansion having already been drawn up by the Lords back in 1951, Shea organized a coalition of potential owners from cities large enough to overcome the population requirements that doomed the promotion of the PCL earlier. In keeping with Lords expansion requirements, the coalition consisted of a unit of eight cities (New York, Atlanta, Dallas-Fort Worth, Houston, Denver, Minneapolis-St. Paul, Toronto and Buffalo) that would seek Major League status together as the Continental League—a third Major League.³

This attempt certainly must have surprised the Lords because by relocating the Braves, Browns and Athletics to Milwaukee, Baltimore and Kansas City respectively -- some of the largest International League and American Association cities (either by coincidence or purposely), and consequently forcing these cities' current minor league teams to relocate to smaller cities such as Toledo⁴—they had effectively killed the abil-

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¹ Roscoe McGowan, *Mayor Says His Baseball Aide Talked to Phils About Shift Here*, The New York Times (April 16, 1959) 41.

² *Id.*

³ *Continental Loop Threatens "War,"* The Los Angeles Times (April 16, 1960) A1.

Continental League (Continued from page 3)

ity of either of these two large AAA leagues to meet the population requirements that would enable them to make the jump, en masse as was required, to Major League status. Thus, with the most likely challengers—the three largest AAA leagues (the PCL, International League and American Association)—effectively stymied, there remained no league in current operation poised to force the expansion issue upon them.

Shea's consortium presented a wholly different challenge: a rival league starting from scratch, with the ability to strategically pick and choose its locations so as to overcome the obstacles that doomed the PCL.

The Lords were clearly not prepared to deal with this. Initially, Major League Baseball did as its exemption permitted it to do: simply ignore the upstart challenger. Shea and his Continental League cohorts, however, were well aware of the power of Congressional threats and actively played this card in their effort to force Major League Baseball to comply with the Sherman Act and permit expansion against their will.

Fortunately for Shea, the head of House Judiciary Committee was Emanuel Celler of Brooklyn, whose district had recently lost its Dodgers and who pined for another team.⁵ He, along with Estes Kefauver, his counterpart in the Senate,⁶ quickly became willing allies in Shea's attempt to limit the effect of Major League Baseball's antitrust exemption.

In October of 1959, Celler publicly criticized the treatment of the Lords toward the Continental League and announced that he planned to take up the suggestion of the Supreme Court in *Toolson* and introduce legisla-

tion reversing *Federal Base Ball* in the upcoming legislative session.⁷ Three months later, in January of 1960, Senator Kefauver, chair of the Senate's Antimonopoly Subcommittee, likewise expressed dismay over the treatment of the Continental League and announced that baseball would be put on their agenda in its next session as well.



Shea did his part to stoke the flames even further when he stated that he was keeping Congress informed of every step of the Continental League's progress and issued an ultimatum to the Lords: "help us or suffer the consequences."⁹ If Major League Baseball was going to continue to lean on its exemption as a crutch to prevent the formation of the Continental League, Shea was going to see to it that Congress kicked this crutch out from under it.

In essence, Shea had two options available to him: he could either continue to press the issue with Congress and compel it to reverse *Federal Base Ball* (which would therefore permit rival leagues such as the Continental to then challenge the reserve clause as violative of the Sherman Act) or he could simply raid the rosters of major and minor league teams and force the Lords to initiate a suit that would eventually focus on the legality of their reserve clause.¹⁰

By forcing Major League Baseball to file suit, rather than doing it himself, he would avoid the hurdle of arguing the merits of the reserve clause under antitrust

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⁴ *Milwaukee has Veeck to Thank for Return to Majors as Bill Forces Perini's Hand*, Chicago Daily Tribune (March 22, 1953) A2. Because the Braves relocated to Milwaukee, the home of their American Association farm team, it forced the Milwaukee minor league team to relocate to Toledo, which had previously been an "open" city ever since its minor league team relocated the previous summer.

⁵ *Celler Blasts Owners, Frick for "Malarky,"* The Washington Post (October 16, 1959) A24.

⁶ *Kefauver is Disappointed*, The New York Times (January 6, 1960) 13. As noted in the article, Senator Kefauver chaired the Senate's Antimonopoly Subcommittee.

⁷ *Celler Blasts Owners, Frick for "Malarky,"* The Washington Post (October 16, 1959) A24. Celler announced that he planned to push antitrust legislation in the next session of Congress.

⁸ *Kefauver is Disappointed*, The New York Times (January 6, 1960) 43.

⁹ *Continental Loop Threatens 'War,'* The Los Angeles Times (April 16, 1960) A1.

¹⁰ *Id.* See also *Advisor for Continental Doubts New Loop Will Become Outlaw*, The New York Times (May 21, 1960) 17.

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law and compel Major League Baseball to instead argue that those players jumping to the Continental League were in breach of the reserve clause. This would necessitate an analysis of the reserve clause's legality under contract law rather than its relation with the antitrust laws. By so focusing the issue, Shea was confident of a ruling in his favor—a ruling that would effectively render practically every major and minor league player a free agent and permit the Continental League to thereafter legally raid the rosters of Organized Baseball despite the exemption.¹¹

This was precisely what the Lords had feared ever since 1946 and had thereafter worked furiously to prevent. Shea was well aware of the Lords' aversion to litigation over the issue and even said so publicly: "I don't believe they'd dare sue us if we raided them for players. They know they wouldn't have a leg to stand on."¹² By playing on these fears, Shea eventually was able to force Major League Baseball to do precisely what its exemption permitted it to avoid.

Shea and the Continental League continued to hammer away on both fronts. In May, 1960, hearings commenced over a bill introduced by



Senator Kefauver that would limit the scope of Major League Baseball's control over players.¹³ If it passed, the expanse of the reserve clause would be severely curtailed because the Lords would be limited to control over a total of just 100 players at the

major and minor league level and of these, all but 40 would be subject to an annual unlimited draft by all interested clubs, including those in the Continental League.¹⁴ The passage of this bill would render the Lords' 1951 expansion blueprints moot since player availability would no longer be an issue. Because Major League Baseball would lose control over the vast

majority of potential players, its ability to prevent unwanted expansion through its exemption would be diminished.

Despite the Lords' worries over the hearings (indeed, all 16 of them met in a special summit meeting just two days prior),¹⁵ they concluded with the Lords dodging, at least on the surface, yet another bullet. The Kefauver bill was sent back to committee on June 28th, 1960, virtually killing the possibility that it could be passed in the immediate future. It was subject to reconsideration, however, pending the veracity of Major League Baseball's pledge of cooperation with the Continental League.¹⁷ Thus, in stalling the bill, Congress was able to extract a promise from the Lords that they would act in ways contrary to their rights under *Federal Base Ball*, thus calling into question the effectiveness of that ruling in the practical, day to day operations of Major League Baseball.

With the two headed dragon of the judicial and legislative branches looming over them, the Lords knew that they would have to give ground. Their reserve clause was going to be challenged, either through anti-trust or contract law, and likely defeated if they continued to resist the pressure to expand.

On July 18, 1960, less than three weeks after the pyrrhic victory that was the return of the Kefauver bill to committee, Major League Baseball announced that, for the first time in its history, it would indeed expand.¹⁸ Initially, the National League announced its expansion plans, accepting a start-up team in New York and promising more teams to come.¹⁹ A few weeks later, Major League Baseball struck a deal with the Continental League by announcing that in exchange for the extinction of the rival league, four of its proposed clubs would be admitted to the American and National leagues.²⁰ By October, the National League agreed to add Houston as an additional team

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¹¹ *Id.*

¹² *War or Quit, Shea Says If Kefauver Bill Fails*, The Washington Post (May 13, 1960) C11.

¹³ *Major League 'Summit Talks' Open Today*, The Los Angeles Times (May 17, 1960) C2.

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Sports Bill Pigeonholed; Continental Dealt Jolt*, The Los Angeles Times (June 29, 1960) C1.

¹⁷ Andrew Zimbalist, *The Practical Significance of Baseball's Presumed Antitrust Exemption*, 22 SPG Ent. & Sports Law J. 23.

¹⁸ Robert Lipsyte, *Loop Affiliation Remains in Doubt*, The New York Times (July 19, 1960) 33.

¹⁹ *Id.*

²⁰ Joseph Sheenan, *Baseball to Add 4 Cities in Majors*, The New York Times (August 3, 1960) 1.

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and announced that the New York and Houston clubs would begin play in 1962.²¹ Soon thereafter, the American League followed suit and announced that Minneapolis-St. Paul would receive the relocated Washington Senators franchise and that expansion franchises would be placed in Washington, D.C. and Los Angeles.²² Although the American League backtracked from its earlier commitment to add teams from the Continental League ownership group, the Continental League reported “no hard feelings.”²³



By the end of this flurry of activity, Major League Baseball had expanded by 20% despite its vigilant opposition. Theoretically, it should have been able to rely on *Federal Base Ball* and its protection of the reserve clause to maintain its monop-

oly over qualified professional baseball players and prevent unwanted expansion of any sort. In reality, however, it was forced to admit that its antitrust exemption offered it no such power. Although technically, it was able to fend off a rival league, it was only able to do so after agreeing to admit half of its teams into the Major Leagues. If this can be considered a victory for Major League Baseball and affirmation of its exemption, it should be noted that in its zeal to protect its exemption and reserve clause, it bargained away much of the power these tools supposedly gave it.

Much as the Lords desired, their exemption survived this first wave of expansion technically “intact” – the Kefauver bill was defeated and they once again were able to fend off a judicial challenge to the reserve clause based on contract law. The ability of these tools to benefit them in any practical way was much less certain.

²¹ Louis Effrat, *National League Admits New York, Houston for 1962*, *The New York Times* (October 18, 1960) 1.

²² John Drebing, *American League, in '61, to Add Minneapolis and Los Angeles*, *The New York Times* (October 27, 1960) 1.

²³ *Id.*



Business of Baseball Committee Meeting at SABR 37

Thursday — July 26
6:30-7:30 pm

Ballroom D—Adams Mark Hotel

The Business of Baseball Committee is focused on building a committee infrastructure and developing projects suitable for collaborative research. All interested SABR members are cordially invited to attend our annual meeting.

Finessing (Continued from page 1)

in Brown's contract is not his brief record setting salary, but rather the incentive and bonus clauses included in the contract. The focus of this essay is the bonus clause detail of Brown's contract and a brief look at the evolution of bonus clauses in general.

The Kevin Brown Contract

Brown was the class of the 1998-99 free agent market. He was coming off three consecutive All Star seasons, bolstered by his 1998 TSN pitcher of the year award and top three finishes in the Cy Young balloting in 1996 and 1998. As a result, he commanded not only top dollar, but significant bargaining leverage for the little "extras" that make headlines in the press and establish a reputation for player agents. Besides the opportunity to increase his salary by eight per cent through bonuses, Brown also had clauses in his contract which guaranteed him a suite on the road, eight premium season tickets at Dodger Stadium, and use of a private jet (including ground transportation) 12 times during the season to his home or selected road games, plus all post season games (of which there were none until he was wearing a Yankee cap in 2004). These latter items were valued at \$1.8 million over the life of the contract.

Among the bonus clauses were \$250,000 for winning the Cy Young award (and decreasing amounts for finishing second through fifth in the voting), \$250,000 for winning the MVP (with decreasing amounts for finishing second through tenth), \$100,000 for being voted to the All Star team, six figure bonuses for winning the MVP for any post season series, and \$100,000 each for a Gold Glove or Silver Slugger award. As a matter of record, Brown went on to earn only \$200,000 of the potential award bonuses.

Brown's contract was certainly not unusual in its inclusion of bonus and incentive clauses. During the 2000 season three-quarters of all MLB contracts included bonus clauses. While Brown's clauses were numerous, they were not unique. Tom Goodwin, for example, had a clause allowing him four first-class round-trip air tickets for each member of his family from Dallas to Denver. Jim Edmonds was allowed to request a trade if the Cardinals' payroll was not among the top 15 in the league in 2003 (they were 8th and he's still a Cardinal).

In addition to his \$6,000,000 salary in 2000, Mark McGwire earned \$1 for each paid admission over 2.8 million (the Cards drew a then team record 3,336,493) and \$25,000 for being selected to the All Star team. He also collected \$4,000 per month for a housing allowance, was provided the use of a "luxury class" automobile, 20 first class airline tickets, the use of a private jet three times during the season and a suite when on the road. Not bad for a guy who only appeared in 89 games.

Bonus clauses

Bonus clauses can be divided into four general categories: awards, performance, signing, and contract status. The award clauses cover every conceivable award (Rookie of the Year, Comeback Player of the Year, MVP, Cy Young, All Star, and Gold Glove, to name a few). Performance clauses center on appearances, such as games played or innings pitched, and not on specific achievements – though this was not always the case. Signing bonuses are self explanatory and contract status clauses include the likes of no-trade, limited trade and buyout provisions. Miscellaneous clauses also pop up, such as the air transportation and private suite clauses mentioned earlier.

I use a sample of American League player contracts to look at the evolution of bonus clauses in the first half of the 20th century. The years 1914, 1924, 1934, and 1944 were chosen for this analysis. The sample includes contracts for 69% of the players who appeared in the AL during those four years, ranging from 47% for 1914 to 85% for 1934. During those years, bonus and incentive clauses were rare, but becoming more common. Only two percent of players received bonus clauses in 1914 (though a total of 29% had some kind of contract amendment – most of these were simply the elimination of the 10 day clause – more on this later), less than 4 percent in 1924 and just over 11 percent in 1934 and 1944. An overview of these bonus clauses can be found in Table 1.

These early bonus clauses focused primarily on specific player achievement, team achievement and roster bonuses (including signing bonuses). In the four year sample, only 54 of the 766 contracts (seven percent)

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TABLE 1: Contract Clauses for Selected Years 1914-44

	1914	1924	1934	1944	Total
Contracts in sample	138	217	223	188	766
Contracts with bonus clause	3	7	22	22	54
Contracts with other clause	37	4	4	1	46
Bonus clause by type					
Attendance			4	14	18
Player performance	1	3	5	1	10
Signing		1	1	1	3
Year end roster retention		1	5	2	8
Good effort	1	1	5	4	11
Team finish	1		1		2
Team profitability		1	1		2

had a bonus clause. An additional six percent had a non-pecuniary clause, mostly the elimination of the 10 day clause. Most bonuses were based on team related accomplishments – either attendance, team finish or team profitability. The second most common type of bonus was “good behavior.”

TABLE 2: Attendance Bonus Clause Conditions

Year	Team	Condition	Bonus amount	Number contracts	Actual attendance	Previous Yr Attend
1934	Chicago	450,000	\$1,000	3	236,559	397,789
1934	Chicago	450,000	\$1,500	1	236,559	397,789
1944	Chicago	450,000	\$500	2	563,539	508,962
1944	Chicago	500,000	\$500	5	563,539	508,962
1944	Chicago	500,000	\$1,000	2	563,539	508,962
1944	Chicago	550,000	\$1,000	1	563,539	508,962
1944	Cleveland	525,000	\$500	1	475,272	438,894

The bonus clause the Red Sox inserted in Carl Reynolds’s 1934 contract is typical of a “good behavior” clause. The Sox promised Reynolds \$500 if his performance was “worthy” of a bonus. There were two obvious complications with this bonus clause. The first being the absence of any definition of “worthy,” and the second being the party who determined such a clause—the manager. It certainly set up a potential conflict of interest, but at the same time gave Reynolds the incentive to please his manager that year, as the bonus was worth six percent of his salary.

Team profitability is another example of a one-sided bonus clause. The bottom line for a team is to make money. The surest way to accomplish this is to win ballgames. Therefore a clause which relates player pay to team performance seems reasonable. This was accomplished in one of three ways: bonus clauses based on team wins, attendance (the majority of a team’s revenue in the pre-radio and television days) and team profits. The first two are easy for the player to monitor; the latter is as amorphous as the “good behavior” clause and rife with the potential for abuse because the self-interested owner has complete control over information about team finances.

Attendance bonuses first appear in 1934 and seem, on their face, to be unrealistic. For example, in the depression year of 1934 the White Sox were promising an attendance bonus to four players if the team drew 450,000 fans – a level they had not reached since drawing 494,152 in 1928. This was not a huge leap from the 397,789 they had drawn the previous season, but seemed improbable given the financial situation in the country at the time.

In fact, Sox attendance fell by more than 40% to 236,559, a long way from having to pay the combined \$4500 in bonuses to Muddy Ruel (.211 with 7 rbi in 22 games), Mule Haas (.268, 2, 22), Milt Gaston (6-19, 5.85) and Evar Swanson (.298, 10 sb, 71 rs). Not that their performances helped the last place team attract many fans. Attendance clauses were more common during the war year of 1944, when they accounted for two-thirds of all bonus clauses (see Table 2). The White Sox were the source of 10 such clauses and the Indians had one attendance clause contract. A more comprehensive view of White Sox attendance and performance history can be found in Table 3.

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TABLE 3: Chicago White Sox Attendance and Performance 1930-1944

Year	Attendance	Wins	Finish
1930	406,123	62	7
1931	403,550	56	8
1932	233,198	49	7
1933	397,789	67	6
1934	236,559	53	8
1935	470,281	74	5
1936	440,810	81	3
1937	589,245	86	3
1938	338,278	65	6
1939	594,104	85	4
1940	660,336	82	4
1941	677,077	77	3
1942	425,734	66	6
1943	508,962	82	4
1944	563,539	71	7

Why bonus clauses exist

So who is deemed worthy of a bonus clause anyway, and why do they exist? In the modern era of competitive sports labor markets, the presence of a bonus condition in the player contract is simply part of the negotiation process. The greater the demand for a particular player, the greater his ability to negotiate bonus clauses (actually, the greater his *agent's* ability to negotiate bonus clauses). The numerous and often complicated bonus clauses in modern contracts serve a number of purposes. First, they are a way for an agent to reap additional funds for a player at a low risk-adjusted cost to the team. This serves to increase the potential value of the player's contract (and hence the agent's commission) and enhance the agent's reputation (which is important for garnering future clients) as a sharp and shrewd negotiator. At the same time, such bonuses are often a cheap way for both sides to save face during negotiations. But why negotiate a bonus clause when you can simply opt for the guaranteed salary?

The salary is, of course, a payment for the performance of the player. But salaries are determined in advance of the actual performance, so that the team is not paying for what is actually being produced, but rather is buying an expected level of production predicted from past performance. Bonus clauses are one way of reducing the downside risk to the team that they will pay for under-performance. If an MVP performance is what the team expects to buy, then an MVP bonus clause will only be paid if the player wins the award. Of course, this means the risk of under-performance is now borne by the player, but since bonus amounts are only a small percentage of the base salary of the best players, the money at risk is not too great. But the presence of the clause allows for the player to cash in on an unexpectedly great season.

The real question is not why bonus clauses exist today, but why and how they prevailed before free agency, in the era of monopsonistic (one employer, many employees) labor markets. After all, if Lu Blue didn't sign with Detroit in 1924, just what was he going to do? His alternative to his \$10,000 salary was not very promising. The average non agricultural wage in the U.S. in 1924 was less than \$1,500. Yet Blue, on top of a salary that paid him more than six times the average U.S. wage, had a bonus clause in his contract that promised him an additional \$1,000 if he appeared in 140 games and hit .330. So why would the Tigers find it necessary to include this bonus in his contract?

The standard reason to offer such bonus clauses would be to provide players with the proper incentive to work hard. In the case of Lu, his average had dropped to .284 in 1923 after two consecutive seasons above .300 and his games played decreased for the second consecutive season from 153 in his rookie season of 1921 to 145 in 1922 to 129 in 1923. It is likely that the Tigers included the bonus to spur Blue to put forth just a bit more effort in an attempt to regain his batting prowess. If that was the strategy, it had mixed results. He did not meet either of his bonus conditions in 1924, appearing in only 108 games, but his average improved to .311.

There is a good reason to use bonuses in an effort to give players an incentive to give maximum effort. It is hard for a team to monitor and enforce effort. It is

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not always clear when a player is dogging it just a bit, actually fatigued during the dog days of August, or playing through a nagging injury. So how to entice a player to monitor himself and deliver his best effort at all times? Give him the incentive via a performance bonus. After all, who better to make sure he is giving his best effort than the player himself? It is more likely that a player will put forth that extra effort when he has money on the line.

This problem is known as moral hazard—that is, after a contract has been signed, one party changes his behavior to the detriment of the other. After signing a contract, a player may be able to reduce his effort a bit, coasting at times, not quite putting out 100%. This may be due to fatigue, laziness, or rational energy conservation. After all, if my team trails 12-0 in the ninth inning, is it really necessary for me to dive for that sinking liner? What will I gain if in doing so I injure myself? And pacing oneself for a long season also seems reasonable. I don't need to leg out that double if the outcome of the game seems certain. I can save myself for later. For the same reason, I may beg out of an occasional game to rest myself. In all of these cases I am not giving my best effort, though that is what fans are paying to see and the owner is paying to hire.

TABLE 4: Top player salaries by year

1914		1924		1934		1944	
Frank Chance	\$20,000	Babe Ruth	\$52,000	Herb Pen-nock	\$55,000	Joe Cronin	\$27,000
Tris Speaker	\$15,000	Ty Cobb	\$40,000	Lefty Grove	\$45,000	Spud Chandler	\$19,000
Ty Cobb	\$15,000	Tris Speaker	\$30,000	Babe Ruth	\$35,000	Ernie Bonham	\$17,500
Eddie Collins	\$11,500	Urban Shocker	\$15,000	Al Simmons	\$25,000	Frank Crosetti	\$15,000
Nap Lajoie	\$9,000	Eddie Collins	\$15,000	Lou Gehrig	\$23,000	Hank Borowy	\$15,000
		Harry Heil-mann	\$15,000			Bobo Newsom	\$15,000
						Rollie Hemsley	\$15,000
						Steve O'Neill	\$15,000

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Who gets a bonus clause

The ability to negotiate bonus clauses is a function of the market demand for a player, which is why bonus clauses are much more common for players who are arbitration or free-agent eligible than for players early in their career. Modern day players have more and better bonus clauses than their pre-free agency brethren because of their increased bargaining leverage. The old-timers didn't have the bargaining leverage to get private suites on road trips. In fact, they usually had their first paycheck of the season docked to cover a deposit on their uniform (imagine how that would play out today). The worst news a player could get from the front office was that his uniform deposit was being returned because it was accompanied by a one-way ticket out of town.

If bargaining leverage is a key to determining bonuses, the natural expectation is that the best players would get bonus clauses. However, it isn't quite that straight forward. First of all, defining "best" is not easy. I will take the coward's way out of this one and define the best players as those that earned the highest salary. While teams had complete control over the players and could dictate their wages, it seems reasonable that when they did pay high wages, they would pay those high wages to the best players. Table 4 lists the top five player salaries by year. For the first three years of the sample this list certainly looks like what we would expect. The top salaries are paid to some of the best players in the history of the game, most of them now in the Hall of Fame. Due to the defection of large numbers of top players into the armed services in 1944, not as many familiar names make the list. How-

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ever, “best” is a relative term, so I will go with this as the list of players the owners deemed the best.

As would be expected, the better players tended to get bonuses. The average salary (not including the value of the bonus) for a contract containing a bonus clause is greater than the average salary in general in each year of the sample. The average player contract for the sample paid \$4,184 and the average salary for a contract with a bonus clause was \$6,014. The details for each year can be found in Table 5.

TABLE 5: Nominal value of contracts for selected years 1914-44

	Average salary all contracts	Average salary contract with bonus clause	Difference	Bonus clause salary as percentage of overall salary
1914	\$3,431	\$3,714	\$283	108%
1924	\$5,116	\$8,245	\$3,129	161%
1934	\$5,368	\$6,342	\$974	118%
1944	\$6,700	\$7,033	\$333	105%
Total	\$4,184	\$6,014	\$1,830	144%

TABLE 6: Performance Clause Conditions

Year	Player	Team	Condition	Amount	Actual performance
1914	Fred Blanding	Cleveland	20 wins and .600 win %	\$500	4 wins ..308 win %
1924	Lu Blue	Detroit	140 G and .330 BA	\$1,000	108 G .311 BA
1924	Charles Robertson	Chicago	20 wins	\$500	4 wins
1924	Allan Russell	Washington	Work on par with 1923 (181.3 IP, 10-7, 3.03)	\$1,000	82.3 IP 5-1 4.37
1934	Lloyd Brown	Cleveland	Ea win over 12	\$500	5 wins
1934	Alvin Crowder	Washington	Ea win over 18	\$500	9 wins
1934	George Earnshaw	Chicago	Ea win over 10	\$500	14 wins
1934	Charles Fischer	Detroit	17 wins	\$1,000	6 wins
1934	Dick Porter	Cleveland	80 games	\$500	93 games
1944	Charlie Metro	Philadelphia	75 games	\$1,000	62 games

While players with bonus clauses on average earn more than others, the player earning the highest salary each year never had a bonus clause in his contract. This could signify that the very best players were paid purely on salary because the owners did not feel they

needed to provide any additional incentive for their performance. This would certainly be consistent with the profile of the stereotypical driven superstar who puts forth maximum effort on every occasion. In this case the player and owner are more likely to negotiate purely on salary and not dicker over bonus clauses.

In 1914 the highest paid player to have a bonus clause was Eddie Collins at \$11,500. However, Collins’s bonus clause was nonpecuniary. It was one of the 37 contracts that year that had the ten day clause eliminated. The highest salaried player who had a financial bonus clause was Bill Carrigan (\$8,000 salary) who earned a \$2,000 bonus as a result of the Red Sox finishing in 2nd place. His contract was the sixth highest in the league. His total earnings that year moved him past Nap Lajoie at \$9,000 into fifth place. In 1924 only Babe Ruth (\$52,000) and Ty Cobb (\$40,000) earned more than Tris Speaker (\$30,000). Speaker was the only one of the three who had a bonus clause, which promised

to pay him \$1,000 if the Indians made at least \$100,000 in profit. The contract specifically noted that the accounting firm Ernst and Ernst of Cleveland would determine if this profit level was earned.

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In 1934 Babe Ruth was the highest paid player with a bonus clause. That year he was the third highest paid player in the league at \$35,000, trailing two Red Sox stars, Herb Pennock (\$55,000) and Lefty Grove (\$45,000). Ruth was paid 25% of the net receipts of all exhibition games in which he played during the season, collecting \$1,697. The reason for this clause is obvious. Even as a fading slugger, Ruth was the biggest draw on the Yankees, and in order to get him to play exhibition games the Yankees felt it was worth a quarter of the gate.

In 1944 Hal Trosky was the highest paid player with a bonus clause, earning \$12,500. This salary placed him 15th in the league for the season. He earned his \$1,000 bonus when White Sox attendance exceeded 550,000.

Earning the bonus

Just because a bonus clause appeared in a contract does not mean that it was actually paid. For example, player performance clauses were only paid on two of ten occasions (see Table 6). In 1934 George Earnshaw was paid \$7,500 in salary and earned an additional \$2,000 by winning 14 games. That's a hefty 27% salary increase for his performance. That same year the Red Sox paid a \$500 bonus to Dick Porter for meeting his performance condition of appearing in 80 games. Actually, the Indians inserted the clause into the contract, but Porter played only 13 games for the Tribe before moving on to the Red Sox, for whom he batted .302 in 80 games, padding his salary by nine percent.

There is no way to determine if any of the team profit or good performance clauses were actually paid without access to team financial records. To date I have located financial records only for the Yankees and the Phillies. Individual salary data for the Phillies is not available, and the Yankees did not offer any profit or good performance bonuses during the sample period. No attendance clauses were paid in 1934, but in 1944 the White Sox paid \$12,000 in bonuses to ten players when they drew 563,539 fans to Comiskey Park. Two of the players earned bonuses for attendance levels beginning at 450,000, seven at 500,000 and one at 550,000. Myril Hoag was the biggest winner, increasing his \$7,000 salary by \$2,000 due to attendance bonuses. The Sox had drawn 508,000 in 1943, so unlike

the depression year attendance bonus levels, these were not unrealistic, though with WWII raging on two fronts, continued increases in attendance certainly could not be taken for granted. The Indians did not have to pay their one clause, drawing just over 475,000, far short of the 525,000 bonus threshold. Both of the team finish clauses were earned. In 1914 Bill Carrigan of Boston was promised \$2,000 on top of his \$8,000 salary if he "helped the team finish first, second or third." Boston finished in second, 8.5 games behind the A's. It is not clear how much Carrigan really helped the team. In 82 games he batted only .253, though he did lead AL catchers with a .984 fielding average. Since the Sox finished in second, I will presume that his bonus was paid.

The other team finish bonus clause was promised to Goose Goslin by the Tigers in 1934. He was paid \$1,000 on top of his \$9,000 salary if the Tigers finished first or second. They won the pennant that year. When considering only the bonus clauses whose outcome I can determine (performance, attendance, team finish and signing bonus clauses), 16 out of 33, or 48%, were paid out. Both were paid in 1914, one of four in 1924, three of 11 in 1934, and in 1944, 11 of 13 bonuses were earned. That year three of the attendance clauses were for coaches of unidentified teams, so I did not include them in this analysis.

Other bonus clauses

Out of the 46 contracts categorized as "other," 35 exempted the player from the 10-day clause included in the standard player contract. The infamous 10 day clause allowed a team to void a contract with a ten day advance notice. In essence, it meant the team could get out of any contract with a mere ten day's severance pay and the cost of a train ticket out of town for the player. The elimination of this clause converted the contract to a one-year guarantee. In other words, the team now was obligated to pay the contract for the remainder of the year. Of course, thanks to the reserve clause, they still had the option to renew the contract for the next season if they wished.

No contracts included clauses with exotic conditions like airfare or private suites, but there were still some interesting conditions included in this sample. In 1914 Boston promised Les Nunamacher \$300 if he was released, a highly unusual concession for a team to

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make. They paid the money when he was released and ultimately claimed by the Yankees. More common was a clause like the one the Red Sox gave Dutch Leonard that year. The team promised to cover his round trip train fare from his Fresno, CA home. In 1924, the White Sox paid for two round trip tickets between home and Chicago for each of two players. The Yankees went one better in 1934 by picking up the cost of a round trip ticket for Mrs. Lazzeri. In 1944 Mike Kreevich and the Browns signed a contract containing a clause that would make Kreevich a free agent at the end of the season if they could not agree on a salary for 1945. They ultimately agreed upon a salary of \$11,000 for the 1945 season, his last in the majors. This was a handsome \$3,000 raise for Kreevich as a reward for his .301 average over 105 games.

Conclusion

While bonus payments were not common in the first half century of modern MLB, they were lucrative relative to salary when they were paid. The average bonus contract went to above average players, but less than half of those bonuses were actually earned. In modern contracts, bonus clauses are more frequent and are awarded to more players. However, in the few examples I have cited, they don't tend to be earned any more frequently than they were in the past, and they are a smaller percentage of total salary. The bonus clause has a long and interesting history in MLB. In future essays I plan to investigate it in even greater detail.



Thank You to our authors

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