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BASEBALL'S REVENUE GAP: PENNANT FOR SALE?

HEARING

BEFORE THE

SUBCOMMITTEE ON ANTITRUST, BUSINESS RIGHTS, AND COMPETITION

OF THE

COMMITTEE ON THE JUDICIARY UNITED STATES SENATE

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BASEBALL'S REVENUE GAP: PENNANT FOR SALE?

TUESDAY, NOVEMBER 21, 2000

U.S. SENATE,
SUBCOMMITTEE ON ANTITRUST, BUSINESS RIGHTS,
AND COMPETITION,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:00 a.m., in room SD–226, Dirksen Senate Office Building, Hon. Mike DeWine, (chairman of the subcommittee) presiding.

STATEMENT OF HON. MIKE DeWINE, A U.S. SENATOR FROM THE STATE OF OHIO

Senator DEWINE. Good morning. Let me begin by welcoming everyone here this morning. As you know, we have convened this hearing to examine the issue of competition in baseball.

We have reached a point in the game where growing revenue disparity among teams in Major League Baseball is creating a sport of haves and have-nots, a sport where teams with the biggest bucks can buy the best players and control the game. Unless baseball addresses these increasing income inequities, America's pastime, as we know it, will simply no longer exist.

The simple fact is this: There is a direct relationship between the levels of revenue teams bring in and their ability to compete on the field. As revenue disparity increases, competition decreases. High-revenue teams can simply outspend the others.

Just compare this past season, the year 2000, and compare opening day payrolls to year-end team standings. For example, in the American League East, the New York Yankees, with the highest opening day payroll of $92.5 million, won this year's World Series. The Minnesota Twins, on the other hand, the team with the lowest opening day payroll of $16.5 million, finished dead last in the American League Central Division, and also had the second worst record in all of baseball this year. And as sports fans know, those were only the opening day figures. The opening day figures of the Yankees at $92 million, and it was not too long after that that they went over the figure of $100 million.

The story is similar in the National League, where the Braves, with an $84.5 million payroll, finished first in the East Division, while the Pirates, for example, with a $28.9 million payroll, placed second to last in the Central Division.

This seems to indicate that while the boys of summer certainly still play for the pennant, right now some Major League Baseball owners are out to pay for the pennant, and to pay big. This fact convinced Baseball Commissioner Bud Selig to create a blue ribbon panel to examine the situation and consider methods to restore revenue balance and healthy competition.

The panel's report, which we will be examining closely today, shows startling facts about the state of competition in baseball, though most baseball fans didn't need a blue ribbon report to know that teams in smaller markets simply cannot compete against those with big payrolls. Still, it is my hope that this hearing today will help galvanize public opinion and compel the owners and the players to act in the best interest of baseball.

With the release of the Blue Ribbon Panel's report, we have reached a crossroads between baseball as it is and baseball as it should be. Today, utilizing the bully pulpit of this subcommittee, I hope that we can do more than just simply talk about the problems in regard to baseball. Today, it is my hope that we can take a first step toward real action to save baseball. Two members of the Blue Ribbon Panel—George Will and former Senator George Mitchell—are here with us today, and we certainly look forward to their testimony.

Now, there is no question that baseball is a serious business. Its impact on our economy is significant and certainly growing every year. As with any major multi-billion-dollar enterprise, the Federal Government has a role, although certainly a delicate one, in making sure that businesses are run in a manner that is consistent with the law and is good for the consumer.

As far back as 1922, when the Supreme Court granted baseball an exemption from Federal antitrust laws, and most recently in 1998 when Congress modified that ruling, the Federal Government has monitored the business of baseball. And this certainly isn't the first congressional hearing on the state of competition in baseball.

In fact, many of Congress' hearings on baseball were held by this very subcommittee, the Antitrust, Business Rights, and Competition Subcommittee. As many fans of baseball know, one of the more memorable exchanges took place in this very subcommittee between Estes Kefauver and Casey Stengel. And we will not today go through that interesting exchange, but as I can tell by the smiles around the room, everyone remembers or has seen newsclips of that very, very interesting exchange.

Today's hearing comes at a time when revenue disparities among major league teams are reaching unprecedented levels, threatening the health, the popularity, and even the integrity of the game itself. You can see one of the root causes of this disparity by looking at local broadcasting revenues, which vary widely between teams located in small and large media markets.

Although the estimates of local broadcasting revenues vary, Broadcasting and Cable Magazine in a March 27 article of this year reported that in the year 2000, the Cubs earned $55 million and the Braves $54 million from local broadcasting revenues, revenues gained through broadcast TV, cable and radio. The Reds and the Brewers, Mr. Selig, two teams that you and I are pretty familiar with, on the other hand, earned $6 million and $4.6 million, respectively, at least as this was reported in that magazine.

Additionally, there are enormous differences in total revenue between the richest and the poorest teams, and those gaps keep growing and growing. According to Andrew Zimbalist, an economist at Smith College, the total revenue gap between the richest and poorest teams in 1989 was about $30 million. The recent Blue Ribbon Panel report found that in 1995 the gap grew to $73 million, and in 1999 the gap reached $130 million. Again, this is the gap between the richest and poorest teams.

With a huge cash advantage, big-market teams have the best chance to sign and retain the best players. This is having a clear impact on the field itself. For example, in 1999 all eight playoff teams were among the top 10 in payroll. This year, two of baseball's biggest spenders, the Yankees and the Mets, advanced to the World Series. And the Yankees, the first club to invest more than $100 million in a single year for players' salaries, has won the World Series in 4 out of the last 5 years.

While it is true that some lower-payroll teams, such as the Chicago White Sox and the Oakland A's this past season, and the 1999 Cincinnati Reds, either made the playoffs or, in the case of the Reds came within one game of making it, it is only the teams with large payrolls that are winning repeatedly year after year after year.

I am concerned that if the gulf between big- and low-budget teams gets wider, it will become even harder for teams such as the Pirates and the Reds to compete. In fact, two of our witnesses here today, Senator George Mitchell and Bob Costas, have both written that if a few cash-rich teams continue to dominate the league, fans of the smaller-market teams will lose interest.

Both Senator Mitchell and Bob Costas, as well as George Will, have all talked about one of the essential things of baseball, and that is that every fan in March, during spring training, ought to have hope that their team at least has a chance of making it to the playoffs, if not to the World Series.

If a few cash-rich teams continue to dominate the league, fans of the smaller-market teams will lose interest. They will not want to "wait until next year" because they will come to believe that there simply will be no "next year." That is bad for both the business and for the game of baseball.

The relationship between revenue and success on the field is not a new issue for baseball. In 1976, then Baseball Commissioner Bowie Kuhn voided the Oakland A's attempt to sell off Joe Rudi, Rollie Fingers, and Vida Blue. He said that if he approved the sale, the, "door would be opened wide to the buying of success by the more affluent clubs, public suspicion would be aroused, traditional and sound methods of player development and acquisition would be undermined, and our efforts to preserve competitive balance would be greatly impaired."

Not everyone, however, is convinced that revenue inequities are a threat to baseball. Some point to the recent success, as I have said, of the A's, the White Sox, and the Reds, teams with good players, good management, teams that beat the odds and had winning seasons. They also point to teams like the Dodgers and the Orioles as examples of how money alone does not guarantee success.

Now, I agree that good management, solid player development, smart trades, and sometimes plain old-fashioned luck still play a role in which team is in or out of the running. Yes, all the money in the world is not a substitute for bad personnel decisions or untimely injuries. However, in today's baseball, without money, you simply don't stand a chance.

As a lifelong fan of baseball, I am concerned about the future ability of Ohio's teams and other teams—in Ohio, of course, the Indians and the Reds—to compete with big-money teams such as the Yankees, the Braves, and the Diamondbacks. While new ballparks represent a solid revenue source for teams in small or medium-sized markets—Cleveland being a great example, and beginning in the year 2003, Cincinnati—I do not believe that in the long run ballpark revenue alone will ever be able to generate the kinds of dollars needed to compete.

In fact, the argument has been made that big-market teams, when they have a new ballpark, versus a small-market team when they have a new ballpark, obviously the big-market teams will see the disparity get bigger and bigger and bigger. And so it is a short-term fix, at best. It doesn't resolve revenue disparities in the long run. Ultimately, ballpark revenue from ticket sales and concessions eventually max out and can bring in only a finite amount of cash.

While there is no consensus on the correct approach to remedy the decline in competition in the business of baseball, one thing is very clear: The status quo is simply unacceptable. Unless something is done to correct the payroll and revenue disparities among the teams, unless we untie the stranglehold—and I believe those were Senator Mitchell's terms in a recent op ed piece—around the small and medium-sized market teams by increasing competition, baseball cannot survive as we know it.

We look this morning to the Commissioner of Baseball, Bud Selig, to outline his blueprint as the Commissioner and to tell us what he plans to do to save baseball. We know the problems. We will hear about the recommendations. But what the game really needs, of course, now is leadership. The immediate challenge is clear: How will the Commissioner convince the owners, particularly the larger-market owners, as well as the players, that their future is tied to the health and to the survival of their sport, and that the health and survival of baseball is directly dependent on the amount of competition that exists in the game today? It is now up to them, to the owners and the players, to step up to the plate. And as always, the fans will be watching.

To put it simply, we look forward to hearing how the Commissioner will lead the owners and the players toward real solutions to the problems that plague baseball. And I hope that for the sake of the game, they do the right thing.

Before we proceed to our first witness, I want to note for the record that the subcommittee extended an invitation to Mr. Donald Fehr, the Executive Director of the Major League Baseball Players Association, to appear at today's hearing. However, due to a long-standing family commitment during this holiday week, Mr. Fehr could not be here with us today.

Let me enter at this point in the record a statement by Senator Kohl, as well as Senator Leahy. We will at this point, without objection, enter them into the record.

[The prepared statements of Senators Kohl and Leahy follow:]

PREPARED STATEMENT OF HON. HERBERT KOHL, A U.S. SENATOR FROM THE STATE OF WISCONSIN

I want to thank you, Mr. Chairman, for holding this hearing, for all is not well in the state of baseball today. While the challenges faced by baseball do not rise to the level of a constitutional crisis, to be sure, the troubled state of our national pastime nonetheless is very important to many Americans. Although baseball's gross revenues have nearly doubled since the strike shortened 1994 season to over $2.7 billion, and while players continue to earn higher and higher salaries, these simple facts mask serious problems in our national pastime. Simply put, major league baseball appears to be losing its competitive balance. Smaller market teams are finding it increasingly difficult to compete with the large market clubs, especially given the continued escalation in player salaries. By and large, we are watching the same top payroll, big market teams in the playoffs and World Series every year. It seems that teams in the small and medium-sized market cities simply can't afford to compete.

Commissioner Selig deserves to be commended for having the foresight and wisdom to appoint the Blue Ribbon Panel on Baseball Economics to examine this issue. The Report convincingly demonstrates that the gap between the haves and have nots of baseball is growing ever wider. From 1995 to 1999, local revenue earned by the wealthiest quarter of teams—ticket sales, concessions, local television and radio (revenues which are not shared among ballclubs)—grew by over $50 million to an average of $122 million per team. This was nearly $100 million more per team, on average, than the local revenue generated by the poorest quarter of clubs. The team with the most local revenue, the New York Yankees, exceeded by approximately $11 million the local revenues of six other clubs combined.

This disparity in revenues was reflected in player payroll which last year averaged over $71 million for wealthiest quarter of teams, as compared to about $26 million for the bottom quarter. The 1999 player payroll of the New York Yankees, more than $92 million, was more than six times the player payroll of the Minnesota Twins, the team with the lowest payroll, and was about equal to the payroll of the five lowest paid teams combined. In 2000, the salary of the game's highest paid player was equal to the payroll of the entire Opening Day roster of the Minnesota Twins.

This inequality of wealth has a direct result on team performance. Not surprisingly, teams with the highest payrolls tend to perform best on the field. In the five seasons from 1995 to 1999, 17 out of the 20 teams that reached the League Championship Series—baseball's final four—had a payroll in the top quarter of the major leagues. No team with a payroll in the bottom half of the major leagues made it this far.

The conclusion is clear—money equals victories. It takes a top payroll in order to field a competitive team. In order to afford a top payroll, a team must be in the top tier of local revenues. And high local revenues are much easily achieved by teams located in large markets. The gap between baseball's haves and have nots is large and growing ever wider, and baseball's small market teams are steadily being shut out.

This caste system is bad for the competitiveness of the game, bad for the fans, and bad for baseball. If it continues, fans in small market cities have little chance of seeing their hometown teams field competitive lineups, or retain their star players. Baseball fans can expect to watch the same few large market/high revenue teams fight for the pennant year in and year out.

Mr. Chairman, I find this situation to be very unfortunate. Fans in smaller markets such as Milwaukee, Pittsburgh, or Minneapolis, for example, deserve competitive teams every bit as much as fans from the largest markets. Baseball needs to restore competitiveness to the game, and needs to take action now. It should look to models found in other professional sports, such as pro football. In the NFL, which enjoys a high degree of competitive balance, local and national revenues are shared to a considerable extent and a salary cap is employed to ensure that all teams have a level playing field, both in the stadium and the front office. We should carefully examine these and the other remedies that the Blue Ribbon Panel and other thoughtful observers have suggested to address the competitive imbalance found in the sport today. We should always strive to ensure that equality of opportunity exists for small and large markets alike in baseball.

And action to restore competitive balance in baseball is in the interest of everyone, big and small markets teams alike, their fans, players, and owners. For if we only root for the home team, it may well be "one, two, three strikes, you're out" for small market baseball.

Thank you again, Mr. Chairman, for holding this timely hearing with this excellent panel of witnesses. I am eager to hear from each of you as we consider these issues so important to the health of our national pastime.

PREPARED STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM THE STATE OF VERMONT

Mr. Chairman, I know this is a much-delayed hearing that you have been seeking to convene. I am sorry that I am not available to attend and that not all the witnesses who had been planning to appear will be able to do so today to provide a balanced record. I do thank you for including the written testimony of Mr. Ray Pecor, owner of the Vermont Expos and Ottawa Lynx.

Major league baseball owners have enjoyed extraordinary increases in the values of team franchises over the past half-century. George Steinbrenner bought the New York Yankees in the early 1970s for $10 million. Today, the Yankees are estimated to be worth $600 million. The Yankees were able to field a team this year whose combined salaries reportedly exceeded $115 million. The Yankees also have a outstanding field manager and have made a number of good management decisions with regard to player personnel. While not a Yankee fan by any stretch of the imagination, I congratulate the New York Yankee organization and Yankee fans on an outstanding playoff and World Series win. I hope that Governor Bush and Vice President Gore will likewise congratulate each other once this presidential election process is concluded.

Twice in the past decade major league baseball has assembled a blue-ribbon panel of experts to examine the financial situation of the sport. Its panels have advocated team revenue sharing. The Subcommittee will hear from some members of the most recent distinguished panel today on its study based on the 5-year period after resumption of play following the last major labor-management dispute.

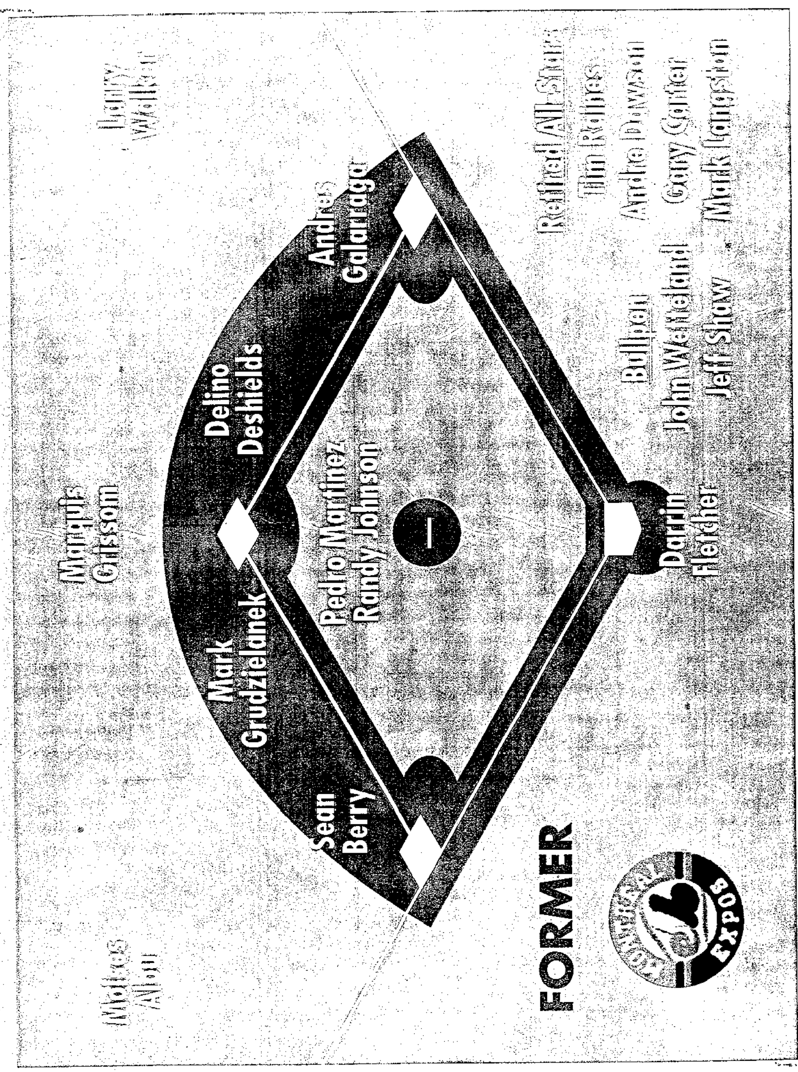
There is quite a baseball buzz around Washington , D.C., these days—even though the closest major league team is way up in Baltimore and the season has been over for a couple of months. The buzz is not about whether or not the Orioles will re-sign their ace pitcher Mike Mussina. It is not about whether the Orioles can rebuild their team. And it is not about some new fan appreciation extravaganza planned for Camden Yards this year. No, it is about the prospect of a major league baseball team relocating to or near to the nation's capital for the first time in 30 years.

Washington has become the most infamous bridesmaid city in professional baseball. Several teams over the years have threatened their home cities with the prospects of moving their teams to Washington in order to get the home cities to agree to publicly subsidize the team, usually by building them new stadiums. San Francisco, Houston and Texas come to mind.

The latest team to be rumored to be exploring the option of relocating to the greater Washington metropolitan area is the Montreal Expos. Owners in Minnesota, Oakland, Tampa Bay, and Florida have all indicated that without additional revenue, they cannot compete with the New Yorks, Atlantas and Los Angeleses of the baseball world. We must be careful, however, not to reward owners who cry "poor" and ransom a new stadium from a city by threatening to move the team or try to excuse their own poor business management. If the owners of major league baseball want to share their revenues to the benefit of so-called smaller market teams, the questions arise whether that is a matter that is consistent with the antitrust laws or whether it requires the concurrence of any other parties or public authority.

One aspect that should not be overlooked in all of these discussions is the impact on minor league baseball around the country. I thank Ray Pecor, owner of the Montreal Expos' single-A affiliate, the Vermont Expos, and triple-A affiliate, the Ottawa Lynx, for submitting insightful testimony today. He sheds light on the current dilemma he faces with the rumors of the Expos moving.

The Montreal Expos do not have a local television contract. They do not have an English radio contract either. In fact, the only way you can even catch any of the action of Expos' home games, unless you go to Olympic Stadium, is to learn French because the only contract the team has to broadcast their games is with a French-language radio station. I ask unanimous consent that a copy be included in the record of a chart I have put together showing the enormously talented players who previously played for the Montreal Expos. This list of players is an all-star roster that would be able to challenge any team and includes both this year's Cy Young Award winners.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Randy Johnson
Darrin Fletcher
Bullpen
John Wetteland
Jeff Shaw
Retired All-Stars
Tim Raines
Andre Dawson
Gary Carter
Mark Langston
EXPOS

Senator DEWINE. Let me also, as a longtime season ticket holder of the Cincinnati Reds, recognize Carl Lindner, one of the principal owners of the Reds, who is here today.

Mr. Lindner, thank you very much for being here with us and joining us.

Let me start by explaining there will be three panels today. Commissioner Bud Selig will testify on the first panel. Pursuant to senatorial courtesy, Senator Mitchell will testify on the second panel. And, finally, we will hear testimony from George Will, Bob Costas, Rodney Fort, and Frank Stadulis, who will be on the third panel.

The custom of this subcommittee since I have become chairman and Senator Kohl has been the ranking member is to have very informal hearings. As we are having discussions, I will throw questions out, and frankly I will take statements made by one of you and ask another member of the panel if you agree with that statement or if you disagree with it.

Although this is not some of the Sunday morning talk shows or "Crossfire," we do have kind of a freewheeling discussion that I would like to have. I think we have found that that works very well and it gets a good exchange of ideas, and that is what we are trying to do today. So I would encourage you to jump in at any point that you have anything you would like to say once we get to the questioning.

Our first panel today is the Commissioner of Baseball. Bud Selig is the ninth Commissioner of Baseball. A lifelong baseball fan, Mr. Selig brought Major League Baseball back to Milwaukee in 1970 as the owner of the Brewers. As President of the Brewers, Mr. Selig was active in his community and received numerous awards for his service in baseball, but also service to his community.

In 1992, Mr. Selig began serving a dual role as President of the Milwaukee Brewers Baseball Club and Chairman of the Major League Executive Council. That lasted until his appointment as Commissioner in 1998. Under his leadership as Chairman of the Executive Council and Commissioner, baseball has implemented several changes, including inter-league play and the beginning of revenue-sharing.

Last year, Commissioner Selig appointed a Blue Ribbon Panel to examine the question of whether baseball's current economic system has created a problem of competitive imbalance in the game.

Mr. Commissioner, thank you very much for joining us here today. We have your written statement which will become a part of the record, as we have the written statements from our other panelists today. All of those written statements will become a part of the record. We would invite you to summarize that statement or proceed however you wish.

Thanks for joining us.

STATEMENT OF ALLAN H. "BUD" SELIG, COMMISSIONER OF MAJOR LEAGUE BASEBALL, MILWAUKEE, WI

Mr. SELIG. Thank you very much. Mr. Chairman, members of the committee, thank you for this opportunity to appear before you to discuss the most critical issue that Major League Baseball faces today—competitive imbalance.

Before I begin, Senator DeWine, I too am pleased that your constituent, Carl Lindner, of the Cincinnati Reds, is here with me today. Cincinnati is one of our oldest and proudest franchises, and I am proud to have Carl present with me at this very important hearing.

By every measure, baseball is in the midst of a great renaissance. Never has the game been more popular. We set a new attendance record in 2000, drawing nearly 73 million fans to our ballparks. More fans attended Major League Baseball games than attended the games of the other three major professional team sports combined. When you add the 35 million fans drawn by minor league baseball, the aggregate number of fans that attended professional baseball is nearly 110 million. In the so-called halcyon days of New York baseball in 1949, the three New York teams—the Yankees, the Dodgers, and the Giants—drew a combined 5,113,000. Last season, the Yankees and Mets drew 6 million.

The only set of circumstances—and I have often said this, Senator—that can impede this great renaissance is our inability to solve the problem of competitive imbalance. During the past decade, baseball has experienced a terribly disturbing trend. To put it simply, an increasing number of our clubs have become unable to successfully compete for their respective division championships, thereby making post-season appearances, let alone post-season success, an impossibility.

The enduring success of our game rests on the hope and faith—key words here, "hope and faith"—of each fan that his or her team will be competitive. At the start of spring training, there no longer exists hope and faith for the fans of more than half of our 30 clubs, and we must restore that hope and faith.

The trend toward competitive imbalance which is caused by baseball's economic structure began in the early 1990's and has consistently gained momentum. Indeed, as I testified in 1994 before members of the U.S. House of Representatives, baseball's economic problems have become so serious that in many of our cities the competitive hope that is the very essence of our game is being eroded.

Unfortunately, baseball's economic problems have only worsened since 1994, and for millions of our fans the flicker of competitive hope continues to become more faint. The competitive imbalance problem is one that, if not remedied, could have a substantial effect on the continuing vitality of our game.

Competition is the main product that Major League Baseball sells. Because of my concern about the competitive state of the game, I commissioned a Blue Ribbon Panel of independent experts to determine the extent and cause of this problem. I also requested that the Panel recommended reforms to our economic structure if it concluded that our structure was contributing to the problem of competitive imbalance.

The distinguished independent members of the Blue Ribbon Panel were Richard Levin, President of Yale University; George Mitchell, former Senate Majority Leader; Paul Volcker, former Chairman of the Board of Governors of the Federal Reserve System; and George Will, the political columnist and commentator who has written extensively about baseball.

The independent members of the Blue Ribbon Panel approached their task in an even-handed and open-minded fashion. As their report makes clear, they viewed themselves as representatives of the fans. I am sure you are familiar with the findings of the Blue Ribbon Panel, so I will not review those in detail. Suffice it to say that the Panel identified a crisis of competitive imbalance in baseball.

From a personal perspective, the Panel's findings are especially troubling to me because as Commissioner of Major League Baseball, my primary responsibility is to preserve the integrity of the game in all 30 major league markets. Moreover, I understand the problem of competitive imbalance because I ran a small-market team, the Milwaukee Brewers, for 30 years. And it is the small-market clubs, those clubs that cannot generate enough local revenues, that are bearing the brunt of the competitive imbalance problem.

I have witnessed the disillusionment that competitive imbalance has caused Major League Baseball's clubs and fans. Clubs like Minnesota, Montreal, Kansas City, Cincinnati, Pittsburgh, Milwaukee, Tampa, Houston, Detroit, among others, have all fallen prey to baseball's inherently flawed economic structure.

Moreover, this problem we are facing today is different from anything previously experienced. If I could just add—and this will probably come up later on—there are many who say we have always had some competitive imbalance, but for factors that are far different, frankly, than exist today.

In the past, clubs did not have equal revenues or payrolls, but small-market clubs had the ability to compete with large-market clubs because revenue disparities were less severe and small-market clubs had a much greater relative ability to afford top talent. Although small-market may have had to work harder than large-market clubs to generate revenue, there was no structural impediment that kept them from being competitive on the field.

Today, by contrast, the revenue and payroll disparities are so great and the role of media revenue is so significant that small-market clubs are faced with situations that at least appear to be hopeless. In an age where the Yankees are rumored to be in line for a $100 million-per-year local media contract, it is difficult to have hope in other cities in which the 2000 season either had no television contract or local revenues of just under $14 million, $14 million being a very important line.

My own experience with the Milwaukee Brewers shows how things have changed. When the Brewers won the American League Championship in 1982, a feat that is virtually impossible for a small-market club under baseball's current economic structure, it was due largely to the fact that our organization had the ability to generate sufficient revenues to support a competitive club.

We had the resources to develop great players, including Hall of Famer Robin Yount, soon to be Hall of Famer Paul Molitor, and Jimmy Gantner. But more importantly, we had the resources to keep these players for their entire careers—Yount and Gantner—or nearly their entire career in the case of Molitor.

While it was a struggle every day, we maximized revenue and made prudent contract decisions that allowed us to pay our great players market salaries. These players enabled the Brewers to be successful participants in the post-season.

We were not alone. Other small markets enjoyed similar success in the 1980's and early 1990's. Again, that is an important time line. Indeed, clubs such as Montreal, Oakland, Pittsburgh, Cincinnati, Minnesota, San Diego and Kansas City all participated in league championship series. Oakland, Kansas City, Minnesota twice, and Cincinnati even won World Series during that era.

Today, however, is a much different story for small-market clubs. Even small-market clubs like Kansas City, Pittsburgh and Cincinnati that enjoyed success on the field not long ago have confronted very different circumstances. These clubs have often done a good job signing and developing players, but today they are forced to watch these players depart for other teams due to small-market clubs' inability to compete from an economic perspective.

In fact, fans in a number of markets have been forced to watch their teams become chronically uncompetitive. As part of the same phenomenon, players routinely demand to be traded to clubs that have a chance to compete. During my 32 years in baseball, I have never witnessed the type of despair that competitive imbalance is causing so many of our clubs today. All of our clubs are greatly concerned about this issue because of the potential effects competitive imbalance can have on national fan interest.

While baseball, in general, is in the midst of a period of great popularity, it is beyond debate that competitive imbalance is causing serious issues in markets such as Milwaukee, Houston, Detroit, Tampa, Toronto, Florida, Kansas City, Minnesota, Pittsburgh, Cincinnati, and others. Indeed, two of our four most recent expansion clubs are having real difficulty. If baseball does not correct the competitive imbalance, the game's current renaissance could be destroyed.

The Blue Ribbon Panel concluded that sweeping changes in the game's economic landscape are necessary to remedy this problem. I agree. I will leave the specifics of the Blue Ribbon recommendations to Senator Mitchell and George Will, who will explain them in detail shortly. I would like, however, to emphasize several points regarding any recommendations or changes relating to baseball's economic structure.

First, I cannot state with certainty that the Panel's recommendations would solve our competitive imbalance problem. I do believe the Panel has provided, at the very least, a very valuable road map on which to plot any changes that we venture to implement.

Second, any changes to our economic structure cannot be implemented without the cooperation and input of the Major League Baseball Players Association. I believe, however, that the Players Association and Major League Baseball have a common interest and desire in making our game the best product for our fans.

I know that our players are aware of and concerned about baseball's competitive imbalance problem, and I am hopeful that in our upcoming negotiations for a new collective bargaining agreement both sides will work together to create a new economic structure in which everyone will benefit.

Let me be clear, however. This is a problem that cannot go unresolved. I am committed to making any and all internal changes that will expedite our journey back toward adequate competitive balance. I am committed to continuing our efforts to grow baseball's central fund, which has been used and hopefully can be used more effectively to balance our clubs' economic resources. Indeed, I believe the central monies generated by baseball's recent television contracts with Fox and ESPN provide an opportunity to improve the competitive state of our game.

I would like to conclude by stating that the game of baseball is at its best when all clubs, those from markets that are diverse geographically, demographically and economically, are provided a reasonably level playing field on which to compete.

Our current economic structure prevents baseball from being its best. It is time for sweeping changes that will hopefully reinvigorate all of our clubs and our fans, and enable baseball to continue this marvelous renaissance and maintain its place as America's favorite sport.

Thank you again for your time and attention, and I ask that my written remarks be submitted in their entirety.

Senator DEWINE. They will be made a part of the record. Mr. Commissioner, thank you very much.

What do you say to those who say that the last 5 years are just the exception, that you have to look at the long history of baseball? There are two arguments that are made. One argument is we have always had a problem. And anyone who is my age can look to the New York Yankees in the 1950's, or my dad can talk about the dominance of the Yankees back in his time, recalling when the Yankees took the Reds in the World Series pretty handily. So we can all look back and say, well, this has always been a problem in baseball. So there are some who say it has always been a problem.

There are others who say, well, it is not really not a problem. First of all, the last 5 years are the exception, the argument that has been made that has to do with the strike and with the problems that baseball had a few years ago.

There are others who would look at the White Sox, for example, and the Reds last year, and would say, look, these are recent examples of teams that did compete. The Reds went right down to the last game of the season. The White Sox, with not very great revenue, competed. They would cite those examples.

So what is your response to those different arguments, but they are arguments?

Mr. SELIG. Yes, they are, and I have a lot of responses. It will take me a little time here, but let me try to deal with that.

Number one, in terms of the last 5 or 6 years now, Senator, there is no question that they are an accurate microcosm of where we are. There have been 189 playoff games; the teams that you talked about won 3 of those games. Think about that.

I know that you are talking about Oakland and the White Sox and Cincinnati, but the problem is they sometimes come from divisions where there isn't a big-spending team. So somebody has to win in that division, but they leave the playoffs very quickly because the higher-payroll teams are able to do at the end what they need to do to get ready for the playoffs. I think there is no question that these last 6 years are a very accurate reflection of our industry.

Let me go back, however, into the 1930's and 1940's and 1950's, because I hear that argument all the time and it is historically incorrect in this regard. Yes, the Yankees won 19 out of 22 years. Yes, the boys of summer dominated a little bit in the 1950's, but they dominated for different reasons. They dominated because of the brilliance of George Weiss, the general manager of the Yankees, and before him, Ed Barrow. They dominated because Branch Rickey was so good and so smart in St. Louis and then later on in Brooklyn that he was able to develop a farm system that other people weren't able to do. Now, that was about management.

In fact, Senator, I have gone back as an old history major and history buff of baseball and many other things and looked, and I am surprised at the lack of economic disparity that I find. so I am more convinced than ever that when Bill Esock went and signed Joe DiMaggio and took a gamble that every other club could have that there was no question that for $25,000 the Yankees wound up with one of the great players of all time; the same with scout Tom Greenway going into Oklahoma and finding Mickey Mantle. Others knew. They went and got him. They didn't give him any money. It was all about management.

Today, as the Blue Ribbon Panel has found out, this is not about management anymore. The fact of the matter is that I have watched a lot of small-market clubs going from franchise to franchise. And having run one and watching what happens, they are extremely well run. But I would submit to you that if Ed Barrow, George Weiss and Branch Rickey could be brought back today, even they couldn't run a small-market club under these conditions the way that Mr. Rickey took a bankrupt Brooklyn Dodger club and built it up without very much revenue, because things change.

You could see these changes coming even in the late 1980's. But in the early 1990's, running a club in Milwaukee, you could see them coming. No, I didn't realize that local media revenues would grow as rapidly and as disparately as they have. There is no question about that. But the fact of the matter is, Senator, that that is what happened.

I used to give a speech all the years that I ran the Brewers all over Wisconsin and northern Illinois, and I would talk about two things, because I had them myself as a fan—hope and faith. I used to say it is our job on April 3—that is opening day of most years, April 2 or 3—to make sure that you have hope and faith that your team has a chance. That is all you can ever ask of them. So the thing that so concerns me, and I believe is the major thrust of my job in the coming months now, is to restore that kind of hope and faith.

When people talk about the Yankees, let me just give you another—I happened to think about it the other day. You talk about the Yankees winning, but in the National League, other than the Dodgers who won in 1947 and Boston who won in 1948, I could take you back into the 1950's and all of a sudden in 1957 the Milwaukee Braves win. In 1958, the Milwaukee Braves win. In 1959, the Dodgers win. In 1960, Billy Mazeroski hits a homerun and the Pirates win. In 1961, the Cincinnati Reds win. In 1962, the San

Francisco Giants win. In 1963, the Dodgers win. In 1964, the St. Louis Cardinals win. In 1965, the Dodgers win.

You go on and on and on, and you see the point I am making. There was hope and faith. So this business that this has always existed is absolutely incorrect. It may have existed because of management, but existed for a different reason. It didn't exist in both leagues.

The fact is, as I have often said, because wherever I go, Senator, it is the first question, whether I am in Cincinnati, whether I am in Pittsburgh, whether I am in New York, Chicago, or Los Angeles—what are you going to do about competitive imbalance, or disparity? Call it whatever you like.

The fact that every so often Oakland or the Chicago White Sox or the Cincinnati Reds manage to struggle to the last game of the year and into a playoff, get that far and then disappear from the playoffs—Drayton McLain, the owner of the Houston Astros said, because they were in it for three straight years, well, it is great we got in the playoffs because in our division there were no big spenders, in the National League Central, and then they disappear quickly.

The fact is that in the last 6 years, all the teams have come from quartiles one or two. As you know, we divide the teams up into top six, middle six, third, and fourth. Only the San Diego Padres, in 1998, played in a World Series, and they were gone in four games and you know what has happened to the Padres since then. That is the point that all small-market general managers would tell you. They have a very tough time keeping the products of their management together.

So I reject the two notions: number one, that the last 6 years aren't an accurate microcosm; and, two, that this is the way it has always been. No, it isn't. This is not the way it has always been.

Senator DEWINE. Mr. Commissioner, you have outlined the problem, I think, very well, and you have said that the Blue Ribbon Panel has given us the road map. I guess the next logical question is how do you get there, how do you get it done.

What do you say to the owners of the Yankees or the owners of the Braves who would say, look, this is America, we bought this franchise, we knew what the market was when we bought it, just as other owners knew what markets they were buying when they bought their team? The price they paid for the team reflected that market. And why in the world should I give up something? Isn't it sort of un-American to ask me—I have been successful, I own it. Why in the world should I give this up? How do you convince them, because isn't that your problem?

It seems to me you have ultimately two issues, two problems.

Mr. SELIG. I wish I only had two problems, but you are right.

Senator DEWINE. Well, we are not getting into the designated hitter today or the strike zone or the elevation of the mound, or other things, or even into whether we should have wild cards and other issues that are near and dear to my heart. We won't get into that today.

Mr. SELIG. I am grateful for that.

Senator DEWINE. I will spare you that, Mr. Commissioner, and a few other issues that I hear about in Cincinnati as well. We will spare you all those today.

But how do you deal with basically, it seems to me, two issues? One is the owners who have the market, who have the money and say, well, why should I give that up, because of someone else's mismanagement, they might argue? I wouldn't agree with that, but that might be their argument.

And then how do you deal with the issue of the players? Talk for a moment about whether or not the Blue Ribbon Panel recommendations, if they would be implemented, are beneficial to the players.

Mr. SELIG. Let me take the first part of your question, if I may, about how do we do it because there are many moving parts here. And you are absolutely correct. There are many things that need to be balanced, and I have known that. I had at least the experience of watching three or four commissioners work while I was an owner which as provided really an invaluable insight for me.

When I took over in 1992 as the Chairman of the Executive Council and so-called acting or interim Commissioner, everybody said revenue-sharing was impossible. Now, Senator DeWine, keep something in mind. As late as 1994, the National League was still paying their clubs the same way they did, as I like to say, in the Ebbett's Field-Polo Grounds days, which means there hadn't been a scintilla of change in the internal dynamics of that since the 1930's. Now, the American League paid 20 percent of the gross gate. But in a great sense, you know, you just sent money back and forth. It was a little bit of help for a small-market club, but very little help.

Now, what have we done since then and what are we doing now? Let me try to outline it because I regard baseball as a social institution. And as you know, Senator, being a fan, it is resistant to change, and sometimes ought to be resistant change. But as the economics changed, so did we.

We had some awful meetings. None of my predecessors were ever able to even confront revenue-sharing. In fact, we had committees, frankly, Senator DeWine, in the early 1990's where the very comments that you made are so germane here because those were the comments made. And we would leave meeting after meeting, as close as all of us were as owners—at least I was to some—I have never been to more unpleasant meetings.

Having said that, everybody said we would never be able to put together revenue-sharing. This year, as a result of the plans that I put forth in 1994 and later passed in 1996 and became part of our agreement, $155 million is being sent from the top six clubs to the bottom six.

Senator DEWINE. Your testimony has been, though, I believe, that that is inadequate.

Mr. SELIG. I was just going to say that. There is no question that it is inadequate. The point I am making, though, to you is that people thought that couldn't be done.

What has happened since then? Last January 19 and 20, in Phoenix, AZ, much was made of the increase of powers that I got. But more importantly than that, Senator, there was a development that I believe, other than what Pete Rozelle as a 33-year-old commissioner did in 1961 with the National Football League, history will some day regard it as the most powerful event in baseball's economic history.

The clubs voted 30 to nothing to share all Internet revenue. We have since set up a company. We have a chief executive officer now. The company is at work. And I believe that if we do our work properly, it will become a critical economic mechanism. You couldn't have even thought about taking a vote 6 or 5 or even 4 years ago, to say nothing of 10, 20 and 30-plus years ago when I entered this business.

Also, I have made a conscientious attempt, Senator DeWine, in the last 5 years to take the central fund revenues and grow them as dramatically as possible, never believing we could grow them that fast. These are all shared equally by 30 clubs.

Senator DEWINE. This is a principle, though. I mean, your point is, isn't it, that you have established a principle you had not had before?

Mr. SELIG. Well, in terms of the central fund revenue, it is more than principle; it is dollars. After all, we just signed a huge network deal with Fox. We have other deals that we have made. Central fund revenue has grown dramatically over the last 5 years. So today we share somewhat in excess of 30 percent of our revenue. Is it enough? No. But, Senator DeWine, it is 30 percent more than we did 5 years ago.

Senator DEWINE. And I respect that and I understand it. I think your point is certainly well taken. Just for the record, though, give us an example of what kind of transfer that has made. We are not picking on the Yankees today, but pick the Yankees, the Braves, or one of the top revenue teams. What kind of transfer has that made from them?

Mr. SELIG. Well, of the $155 million, I would have to look up the specific amounts, but I believe it is—the Yankees this year paid $17 million-plus into that fund, the Mets $15 million into that fund.

Senator DEWINE. The reality, and again I am not——

Mr. SELIG. By the way, there are clubs at the bottom level that received $23 million, $20 million, $15 million, a whole raft of clubs at $11 and $13 million. So the fact is they are very significant.

Senator DEWINE. And I think your point is very well taken, but the reality is that—and I think the Blue Ribbon Panel may have made this point, and I am sure Senator Mitchell will correct me if I am wrong when he gets up here, but that the disparity is growing faster than the amount of money that is going into the pool.

Mr. SELIG. I am the greatest proponent of that. In fact, there is no question. I have said this all over America. We have taken steps in the right direction, but we have a long way to go, and I realize it is certainly the greatest challenge I have in front of me.

Senator DEWINE. Let me, if I could, get into this a little more because we are discussing today the problem, we are discussing today several ideas of the solutions. The third panel is going to have several ideas of the solutions, as well as when Senator Mitchell testifies.

I guess a skeptic would say, well, that is all interesting, Senator DeWine or Commissioner Selig, but I still don't see how you get this done. Shed some light for us, will you, on something that always fascinates fans, which is the inner workings of baseball? What kind of power do you have to deal with this? What can you do unilaterally?

Give us a temperature read of your 30 owners. I mean, give us some clue, please, for the fans of this country what are the odds of getting anything done beyond what you have already gotten done, where the problem seems to be racing far ahead of the solution so far, at least the solution that has been implemented so far, with all due respect.

Mr. SELIG. Well, many initiatives are already underway. Do I believe this problem will be corrected? I do, Senator. I want to say that to you today. I took this job a little over 2 years ago understanding the dimensions of the problem, understanding the problems, and I believe that it can and will be solved.

Senator DEWINE. When and how?

Mr. SELIG. Well, exactly doing the things that we have done. As I say to the clubs often—we have had meetings, we just had a meeting a couple of weeks ago—the economic landscape of this game not only must be changed, but the way we do business must be changed.

As I said earlier, I think the Blue Ribbon report is a road map in terms of some of the moving parts, and I have every confidence that that will serve as a road map. I also believe that as we grow the revenues—and I have discretionary use of those in my role as the Commissioner that I will determine as time goes on—I think there are enough moving parts here.

Look, every vote we have taken so far—and I will take some credit for this—has been 30 to nothing. What I say to the clubs, Senator, in the end is off the field we are partners, off the field we need to solve these problems. Nobody benefits from these problems, and so far the clubs have responded to each and every thing. I can't impress upon you how important the Internet thing is because the Internet thing, I believe, alone will change the economic landscape of the game.

Senator DEWINE. I don't know much about computers, as my children will tell you.

Mr. SELIG. No, neither do I.

Senator DEWINE. But I do know enough that my son can figure out how to get the Reds when we are sitting in northern Virginia and we want to pick it up off the Internet. That much I do know.

Mr. SELIG. Look, how do we do it? We need to take that 30 percent of revenue shared and boost it up. We need to do that by expanding the revenues dramatically.

Senator DEWINE. I want to make sure that I understand and we get this out on the record. The power that you were given to deal with the central fund does not reach—correct me if I am wrong, but it does not reach to most of the recommendations that Mr. Will and Senator Mitchell made. I mean, you can't do that today unilaterally, can you? Can you do that today?

Mr. SELIG. No, no. However, there is a whole series of moving parts here, Senator. I frankly, amongst other things, have been working with each club on what I call their fiscal responsibility in total, because the debt of the industry has also grown at a very alarming rate. So as the Commissioner of Baseball, I feel I have every reason to be concerned about that.

And the fact of the matter is, on central fund revenues and other things, as time goes on, as all these other moving parts come together, I will use my discretion relative to a club who is struggling mightily and who will need some help. But all of these parts are so related that I would hope that while we take care of the revenue, and we will do that—look, when you think about where the industry was 10, 15, 20, 30 years ago, this industry was a sleepy industry.

There used to be a slogan years ago—you talk about the 1950's and 1960's—a franchise would say, here I am, love me; if you don't love me, I am gone. Today, clubs are aggressive. They are building stadiums; they are making huge investments themselves, as Mr. Lindner has done in Cincinnati.

So if clubs are aggressive—and that is what I have to watch on a franchise-by-franchise basis—doing everything they can, generating their own revenues, then we supplement that with central fund revenues and other revenues that come out of that. Now, there are other moving parts. If we keep moving in the same direction we have, that is how we are going to solve the problem.

Senator DEWINE. Mr. Commissioner, I appreciate that, but let me just make sure I do understand, though. You don't have the power today to implement most of the recommendations of this Blue Ribbon Panel. I am not saying you won't get it tomorrow, but I just want to make sure where we are today.

You talk about the central fund. As that central fund grows, as it is defined today, then, yes, you have that. So if the Internet just goes straight up and, you know, hundreds of millions of dollars, you clearly have the power to distribute that today.

What we are talking about, though, when you are talking about the Blue Ribbon Panel, you are talking about some very significant revenue-sharing. You are talking about some other things that we are going to hear from Senator Mitchell. But I just want to make sure, yes or no, you don't have the power to implement that today, do you?

Mr. SELIG. Some of those are obviously subject to collective bargaining.

Senator DEWINE. Ok. Well, we are going to get into that in a second.

Mr. SELIG. That is what they are subject to. That is really what they are subject to. The revenue-sharing and the salary restraint that you are talking about are part of our labor agreement.

Senator DEWINE. Is there the will among the owners today, in your opinion, to implement, putting aside the issue of collective bargaining—we will get to that in a minute—let's just stay with the owners. Is there the will to deal with this problem today as it is outlined in something similar to the Blue Ribbon Panel? What is the temperature, as I asked you a few minutes ago? How do you read the temperature of the owners? It seems to me there are two issues: what can you do unilaterally, and then what is the support there.

Mr. SELIG. Well, there are a significant number of things internally that I can do. But on the issues that you are raising here, I kid the clubs a lot, but on every major issue over the last 8 years we have had a 30 to nothing vote. I have talked to the clubs. We have had very candid meetings on these subjects and I am not concerned that the vast majority of clubs are not only very supportive of my efforts, but will be supportive when we come to the moments of truth, and I mean the vast majority.

Senator DEWINE. When you go back to them for additional either authority or change in the basic structure?

Mr. SELIG. I don't need any more authority. They really, last January 19, gave me more authority than any commissioner has ever had in baseball, or quite frankly in any other sport.

Senator DEWINE. I am going to try it one more time, and maybe I am just a little slow this morning. Do you have the power to implement a good portion of this today or do you have to go back to the owners, or are you just saying for those of us who aren't in the inner workings of baseball that that just isn't how it works? Isn't that what you are saying, it just doesn't work that way, Senator? I have got to have a consensus?

Mr. SELIG. No. I am not worried about our side in terms of the ownership.

Senator DEWINE. Well, that is very goods news. That is very good news.

Mr. SELIG. The moving parts of this—quite frankly, the moving parts of this, of the Blue Ribbon report, are a part of the collective bargaining agreement. Am I concerned that I can deliver the votes on critical things to fix this problem? I am not concerned. I am very confident.

Senator DEWINE. That is very good news. Let me move to the second part of my question, then, and that is the players. What do you say to players who could recite the long history going back to Curt Flood and going back to the reserve clause, et cetera, et cetera, who say none of the solutions that I have seen are helpful to players, that in fact you are trying to roll back the clock, that in fact even the Blue Ribbon Panel report, while it does not have a cap, per se, really does have an effective cap?

Mr. Costas has a cap, and we will get into his proposal when we get to his panel. But they would say that even in the Blue Ribbon Panel that it is an effective cap. I am not speaking for the players, but I am saying what if they would say that? What is your answer? And how do you propose getting over the second hurdle which, as you say, part of this is, in fact, tied to collective bargaining?

Mr. SELIG. What I would say to the players in that regard is, look, the more teams that are competitive, Senator, the more teams that have a chance to win, the more teams that have hope and faith, the better off the players will be. There is no question about that.

In fact, it has been interesting to me the number of players on small-market teams that have commented both publicly and privately how frustrating it is for them. The fact of the matter is that none of this, I believe, hurts them. On the contrary, I believe for most of the major league players this is helpful.

Senator DEWINE. Well, there is a report out from Baseball Weekly, a player survey for the year 2000, which I know you are familiar with and the Blue Ribbon Panel was familiar with as well.

Mr. SELIG. Right.

Senator DEWINE. Fifteen percent of the players said lack of competitive balance was baseball's biggest problem. Twelve percent thought players' salaries were too high. Now, those were some of the top items that were, in fact, listed here. And then in here they quote some of the players who do talk specifically about what these problems are. So I think that is of interest. The players' representatives are not here today, and obviously we cannot hear from them about this.

Mr. SELIG. Right.

Senator DEWINE. You mentioned something a moment ago sort of as an aside about the profitability of baseball. Do you want to shed any light on this and, you know, how many of the teams are making money and how do you deal with the issue that player representatives in the past have called into question your figures because they are your figures and they are baseball's figures?

Also, some observers, for those teams that are entwined with media companies, have also questioned that the figures are correct; that, in fact, the profitability is actually being hidden in that relationship between the media companies and the ball team itself.

Mr. SELIG. It is called related-party transactions. Let me say at the outset I spend a great amount of time with each club now on a daily basis for two reasons. Number one, the industry as a whole is in a loss position, a significant loss position.

Senator DEWINE. You say is?

Mr. SELIG. Is.

Senator DEWINE. Is in a loss position.

Mr. SELIG. Eighteen to twenty of our clubs lost money in 2000. The loss is significant. More important, Senator DeWine, the debt of the industry has risen to an alarming number. Therefore, as the Commissioner of Baseball, it becomes my responsibility and my concern, and so I am spending a great deal of time with clubs on budgeting, on a whole series of things as we speak.

Now, having said that, I have heard for 30 years about, well, the real sets of books, and so on and so forth. These numbers, as Senator Mitchell and George Will, amongst others, know, have been audited by two national auditing firms, plus the clubs' auditing firms. I ran a team for 30 years. Maybe there is something I didn't know because we only had one set of books. I never did know whether the other set existed. These losses are real.

I have gone into the so-called related-party transactions and their losses are real, those that are losing. The fact of the matter is that this is a concern and it should be a concern of ours, and it is one of my primary concerns. The losses are real and they are related to the very things we are talking about here today. It is a very, very difficult set of circumstances, and that is in no one's best interest.

You asked about initiatives before. Well, one of the initiatives that I have underway with the 30 clubs deals with this very subject that we are talking about because the lack of viability is another problem that we have in trying to establish competitive teams.

Senator DEWINE. What is the relevance, if any, in your opinion, of the sale value of the teams? In other words, some would argue, well, that is fine, you don't make any money. But if you buy at one level and you sell at another level, it is like a stock. I mean, maybe you don't get dividends, but you do increase your gain here. What is the problem?

Mr. SELIG. For many years, I used to hear that and it was true to some extent. But we used to call it, with all due respect, the greater fool theory. The problem is, Senator, we have run out of greater fools.

Yes, there will always be some franchises that can be sold, the premier franchises. But when the Kansas City Royals were sold earlier this year at a price that was well under $100 million for a club that had lost a lot of money, the fact of the matter is that they lost money. And there are a lot of franchises that have struggled to find local owners, other owners.

I would say that Carl Lindner could be reminded of the conversation, Senator, that he and I had last year. It wasn't something that people were stepping up and waiting in line to do. And so the appreciation of these franchises is over in terms of buying it for that reason. I guess, to put it in its bluntest terms, the greater fool theory no longer exists in most of these franchises that we talked about, the smaller and medium-sized markets.

Senator DEWINE. Let me go back, if I could, to a question I asked you a moment ago, maybe, if you could elaborate a little bit more on your answer, and that is having to do with the whole issue of collective bargaining and the whole issue of players. What is in this for the players? Let's be blunt about it. What is in it for them? Why should they accept some version of this Blue Ribbon report? Isn't it going to depress wages?

Mr. SELIG. Well, no, not in my judgment; no, not at all. In fact, I think as an industry if we do this right, I don't think it has that effect at all. But what is in no one's best interest, if what you have said here today is correct, and it is, and what I have said here today—and I know it is correct; I know that the others on both panels, hopefully, will agree.

Wherever I go, Senator, baseball fans everywhere understand this problem. The more, as you said earlier, this problem is growing, the less likelihood—there are people, for instance, doing research on the World Series ratings who will say, well, one of the factors you have is the lack of competitiveness among the franchises beginning to rear its ugly head. This thing has a chance to rear its head, manifest itself in so many ways that no one—players, owners, anybody connected with the national pastime—will be better off as a result of it if we don't solve this problem.

I meant what I said in my statement and I will say it again here today. The only thing that can impede this renaissance and really hurt us is our inability to solve this problem.

Senator DEWINE. Well, it seems to me that one of the things that makes common sense has to do with human nature, but I think it is also reflected in the player survey that I referenced, and you see it quoted in the paper all the time when players say who they want to be traded to.

Mr. SELIG. Exactly right.

Senator DEWINE. Players are competitive. They want to play for winners or they want to play for teams that have a shot at being winners. You keep seeing that time after time after time when you read the sports page day after day after day. Players are making decisions not just on the basis of money. Certainly, that is part of it; again, it is human nature. But they are also making it because they want to be competitive. They want to play for a team that has a shot at the pennant, has a shot at the playoffs. And it seems to me that that is something that has some significance to this whole discussion.

Mr. SELIG. If I can just respond to that for a second, if you are running a franchise in Cincinnati, or when I was running it in Milwaukee, thing about this. I know that we will never go back to what we were back in the 1930's, 1940's, 1950's and 1960's, and probably shouldn't. But a fan felt in Cincinnati, Senator, that Ted Kluszewski or Wally Post or Jim Greengrass, or whatever——

Senator DEWINE. You just know my age, that is all, Mr. Selig. Do you want to go through the rest of that lineup—Johnny Temple, Roy McMillan.

Mr. SELIG. Roy McMillan came to the Braves later on. That is exactly right. We sent you Joey Jay and it was a bad mistake that the Braves made.

Senator DEWINE. Let me conclude, if I could, by reading an e-mail that I received from a constituent of mine in my home State of Ohio, speaking about the current situation in baseball. I just got this e-mail this past week. This is what this individual said: "It is getting to a point where fans of small-market teams don't even care. If Major League Baseball thought that post-strike attendance was bad, it is not going to get any better. I know the World Series ratings weren't that great as well. As much as Mr. Steinbrenner and others don't want to hear it, there is no team that is greater than the game."

I guess you have addressed that and I won't even ask you to comment on it, but I think it does go back to what everyone has talked about, and that is some of us think the greatest month of the year is March because it is the time of hope and it is the time of spring training and it is the time when we look forward to what lies ahead. And we hope that fans will always have the opportunity to have that.

Mr. SELIG. Well, thank you. Let me just say in conclusion, Senator—and I appreciate very much the opportunity to be here—that I would say to you today what I say to myself everyday when I am working on this problem. It is my job to restore hope and faith, and I can assure you this system will be changed and this problem will be dealt with.

Senator DEWINE. Mr. Selig, thank you very much. I hope you will be able to stay and watch the other panels.

Mr. SELIG. I will. Thank you very much.

Senator DEWINE. Thank you very much. We appreciate it.

[The prepared statement of Mr. Selig follows:]

PREPARED STATEMENT OF ALLAN H. SELIG

Mr. Chairman and members of the Committee, thank you for this opportunity to appear before you to discuss the most critical issue that Major League Baseball faces today—competitive imbalance.

By every measure of comparison, Baseball is in the midst of a great renaissance. Never has the game been more popular. We set a new attendance record in 2000, drawing nearly 73 million fans to our ballparks. More fans attended Major League Baseball games than attended the games of the other three major professional team sports combined. When you add the 35 million fans drawn by minor league baseball, the aggregate number of fans that attended professional baseball is nearly 110 million. In the so-called halcyon days of New York baseball in 1949, the three New York teams—the Yankees, Dodgers, and Giants—drew a combined 5,113,869. Last season, the Yankees and Mets drew 6,027,878.

The only set of circumstances that can impede this great renaissance is our inability to solve this problem of competitive imbalance. During the past decade, Baseball has experienced a terribly disturbing trend. To put it simply, an increasing number of our Clubs have become unable to successfully compete for their respective Division Championships—thereby making post-season appearances—let alone post-season success—an impossibility. The enduring success of our game rests on the hope and faith of each fan that his or her team will be competitive. At the start of spring training, there no longer exists hope and faith for the fans of more than half of our 30 clubs. We must restore that hope and faith. the trend toward competitive unbalance, which is caused by Baseball's economic structure, began in the early 1990s and has consistently gained momentum. Indeed, as I testified in 1994 before members of the United States House of Representatives, "[Baseball's] economic problems have become so serious that in many of our cities the 'competitive hope' that is the very essence of our game [is] being eroded." Unfortunately, Baseball's "economic problems" have only worsened since 1994, and for millions of our fans, the flicker of "competitive hope" continues to become more faint. The competitive imbalance problem is one that, if not remedied, could have a substantial effect on the continuing vitality of our game.

Competition is the main product that Major League Baseball sells. Because of my concern about the competitive state of our game, I commissioned a Blue Ribbon Panel of independent experts to determine the extent and cause of this problem. I also requested that the Panel recommend reforms to our economic structure if it concluded that our structure was contributing to the problem of competitive imbalance.

The distinguished independent members of the Blue Ribbon Panel were Richard Levin, President of Yale University; George Mitchell, former Senate Majority Leader; Paul Volcker, former Chairman of the Board of Governors of the Federal Reserve System; and George Will, the political columnist and commentator who has written extensively about Baseball. The Independent Members of the Blue Ribbon Panel approached their task in an even-handed and open-minded fashion. As their report makes clear, they viewed themselves as representatives of the fans.

In its investigation, the Panel relied on data provided by Baseball for the years 1995 through 1999 which included information regarding each Club's regular and post-season win-loss record, ticket and concession prices, local revenues, player payrolls, revenue sharing payments and receipts, and profits and losses. This data was verified by the accounting firm Ernst & Young and audited by the accounting firm of PricewaterhouseCoopers. After 18 months of intensive investigation and analysis, the Panel reported its findings and recommendations in July of this year.

The findings were, to say the least, disheartening.

First, the Panel concluded that large and growing revenue disparities do exist and are causing problems of chronic competitive imbalance. Second, these problems have become substantially worse during the five complete seasons since the strike-shortened season of 1994, and seem likely to remain severe unless Major League Baseball undertakes serious remedial actions. Third, the limited revenue sharing and payroll tax systems that were approved as part of Baseball's 1996 collective bargaining agreement with the Major League Baseball Players Association have produced neither the intended moderating effect on revenue and payroll disparities nor improved competitive balance.

The Panel's findings begin with the issue of revenue disparities between Clubs. Local revenues, which are the largest component of a Club's total revenue and include such items as local television and radio contracts, ticket sales and local sponsorship, vary widely between Clubs. For example, in 1999, the Montreal Expos had local revenues of $12 million compared to the New York Yankees' local revenues of $176 million.

At least a decade before the Blue Ribbon Panel was appointed, many of us in Baseball recognized the growing problem of revenue disparity and tried to address it. Historically, Baseball had no meaningful mechanism for local revenue sharing. In the early 1990's, I made an improved system of local revenue sharing my primary goal. In 1994, I convinced the Clubs (by a 30–0 vote) to adopt a revolutionary local revenue sharing plan. Although the Players Association initially resisted this change, an agreement to implement the new plan was reached in 1996. Today, approximately $155 million is transferred from high revenue to low revenue Clubs. Moreover, we have worked tirelessly to increase central fund revenue which tends to decrease disparity because it is shared equally by all 30 Clubs. In 1995, central fund revenue was approximately $171 million. In 1999, it was $521 million.

These efforts, however, simply proved inadequate. The Blue Ribbon panel found that from 1995 through 1999, the difference between the highest and lowest Club total revenues, meaning a Club's revenues after revenue sharing and central fund distribution, rose from $74 million to $164 million. In 1999, the total revenue of the highest revenue Club was $22 million more than the combined revenues of the four Clubs with the lowest revenues.

The Blue Ribbon Panel's second major finding was that revenue differentials between high and low revenue Clubs resulted in significant disparities in player payrolls. For example, in the 2000 season, one Club's payroll was approximately equal to the sum of the payrolls of the five lowest payroll Clubs. Between 1995 and 1999, the difference between the highest and lowest Clubs' payrolls increased from $45 million to $76.5 million, and the difference between the highest Club's payroll and the average of all Clubs' payrolls increased from $22 million to $43 million.

Finally, and most important, the Panel highlighted the consequences of these revenue and payroll differentials. To do this, the Panel separated the Clubs into quartiles by either revenue or payroll; Quartile One containing the Clubs with the most revenues or highest payrolls and Quartile Four containing the Clubs with the least revenues or lowest payrolls. As the Panel noted, from 1995 through 1999, every World Series winner was from payroll Quartile One and no Club outside payroll Quartile One won a single game in the World Series. Indeed, the World Series Champion each year was among the five Clubs with the largest payroll. With the exception of 1998, even the World Series loser was from payroll Quartile One. As all of you probably know, this trend continued this year (2000) with the number one and number three payroll clubs—the New York Yankees and the New York Mets, respectively—both participating in the 2000 World Series.

From 1995 through 1999, no Club in payroll Quartiles Three and Four—meaning all Clubs in the bottom half of payroll—won a single playoff game. Although the White Sox and A's managed to break this "shut out" in 2000, the facts remain stark. Over the period 1995–2000, 189 post-season games have been played. Three of these post-season games, or less than 2 percent, have been won by Clubs with payrolls in the bottom half of the industry.

The Panel's staggering findings are especially troubling to me because, as Commissioner of Major League Baseball, my primary responsibility is to preserve the integrity of the game in all 30 Major League markets. Moreover, I understand the problem of competitive imbalance because I ran a "small market" Club—the Milwaukee Brewers—for thirty years. And it is the small market Clubs, those Clubs that cannot generate enough local revenues, that are bearing the brunt of the competitive imbalance problem. I have witnessed the disillusionment that competitive imbalance has caused Major League Baseball's Clubs and fans. Clubs like Minnesota, Montreal, Kansas City, Cincinnati, Pittsburgh, Milwaukee, and Tampa Bay, among others, have all fallen prey to Baseball's inherently-flawed economic structure.

Moreover, this problem we are facing today is demonstrably different from anything previously experienced. In the past, Clubs did not have equal revenues or payrolls, but small market Clubs had the ability to compete with large market Clubs because revenue disparities were less severe and small market clubs had a much greater relative ability to afford top talent. Although small market Clubs may have had to work harder than large market Clubs to generate similar local revenues, there was no structural impediment that kept them from being competitive on the field. Today, by contrast, the revenue and payroll disparities are so great and the role of media revenue is so significant that small market Clubs are faced with situations that appear hopeless. In an age when the Yankees are rumored to be in line for a $100 million per year local media contract, it is difficult to have hope in Montreal which, for the 2000 season, had no television contract and local revenue of just $14 million.

My own experience with the Milwaukee Brewers shows how things have changed. When the Brewers won the American League Championship in 1982—a feat that is virtually impossible for a small market Club under Baseball's current economic structure—it was due largely to the fact that our organization had the ability to generate sufficient revenues to support a competitive Club. We had the resources to develop great players, including Hall of Famer, Robin Yount, soon-to-be Hall of Famer, Paul Molitor and Jim Gantner. But, more important, we had the resources to keep those players for their entire careers (Yount and Gantner) or nearly their entire career (Molitor). While it was a struggle every day, we maximized revenue and made prudent contract decisions that allowed us to pay our great players market salaries. These players enabled the Brewers to be successful participants in the post-season. And, we were not alone. Other small markets enjoyed similar success in the 1980s and early 1990s. Indeed, Clubs such as Montreal, Oakland, Pittsburgh, Cincinnati, Minnesota, San Diego and Kansas City all participated in the League Championship Series, and Oakland, Kansas City, Minnesota (twice) and Cincinnati even won the World Series during this era.

Today, however, is a much different story for small market Clubs—even those small market Clubs that experienced post-season success not so long ago. The Montreal Expos provide one such example. In the 1980's, the Expos were very competitive on the field. They won the "first-half" of the strike-divided 1981 season and nearly won the division in 1987. The Expos' team in the 1980's included such great players such as Andre Dawson, Tim Raines, Andres Galarraga, Gary Carter, Hubie Brooks, Bryn Smith and Tim Wallach. Lest we forget, Randy Johnson also began his career with the Expos in the late 1980's. As the decade progressed, however, the problems inherent in Baseball's economic structure began to effect Montreal's ability to compete on the field. By 1991—in what has proved to be a sign of things to come—all of the key players mentioned above had left Montreal—most often via free agency or the threat of free agency—for other Major League teams.

The Expos, however, persevered. They rebuilt with new, young talent and, throughout the early 1990's, Montreal had one of the best records in the National League. In 1993, the Expos had 94 wins—one shy of the Club's all-time record. In 1994, the year of the player strike, the Expos had a team that included Larry Walker, Moises Alou, Marquis Grissom and pitchers Jeff Fassero, Pedro Martinez, Ken Hill and John Wetteland. When the strike began on August 11th, the young Expos had the best record in all of Major League Baseball.

Unfortunately, due to the changing dynamics of Baseball's economic structure, the Expos again were not rewarded for their hard work in building this team. Rather, they were penalized because of their market size by being financially forced to break up this strong, young team. Even worse, the Expos stars often left town not because of free agency or the threat of free agency, but because the Club could not even afford to pay the going rate in salary arbitration. In other words, the Expos were forced to give up the players it developed at a much earlier point in their careers. Several players went straight to large market Clubs—Wetteland to the Yankees, Grissom to Atlanta, Martinez to Boston, Fassero to Seattle and Alou to Florida for the high-payroll 1997 World Series Championship Club. Now, this once competitive "small market" Club maintains one of the lowest payrolls in the League due primarily to its inability to generate local revenues.

Montreal continues to be one of the more successful player development organizations in baseball. The Club scouts and signs great young talent. Unfortunately, the price for that talent is set in salary arbitration and free agency by Clubs with vastly more revenue. A Club with revenues approaching $200 million may be willing to pay a player $15 to $17 million per year. A Club with $40 million in revenue simply does not have that option. As a result, the only viable option available to Clubs like the Expos is the very low price—usually not very competitive—team.

The Expos are just one example of what has occurred throughout our League during the past decade. Fans in a number of markets have been forced to watch their teams become chronically uncompetitive. As part of the same phenomenon, players routinely demand to be traded to Clubs that have a chance to compete. During my thirty-two years in Baseball, I have never witnessed the type of despair that competitive imbalance is causing so many of our Clubs today. In fact, all of our Clubs are greatly concerned about this issue because of the potential effects competitive imbalance could have on national fan interest. While Baseball, in general, is in the midst of a period of great popularity, it is beyond debate that competitive imbalance is causing serious issues in markets such as Montreal, Milwaukee, Tampa Bay, Toronto, Florida, Kansas City, Minnesota, Pittsburgh, Cincinnati and others. Indeed, two of our four most recent expansion Clubs are having real difficulty. If Baseball does not correct the competitive balance problem, the game's current renaissance could be destroyed.

The Blue Ribbon Panel concluded "sweeping changes in the game's economic landscape are necessary" to remedy this problem.

I agree.

I will leave the specifics of the Blue Ribbon Panel's recommendations to Senator Mitchell and George Will who will explain them in detail shortly. I would, however, like to emphasize several points regarding any recommendations or changes relating to Baseball's economic structure. First, I cannot state with certainty that the Panel's recommendations would solve our competitive imbalance problem. I do believe that the Panel has provided, at the very least, a valuable roadmap on which to plot any changes that we venture to implement.

Second, any such changes to our economic structure cannot be implemented without the cooperation and input of the Major League Baseball Players Association. I believe, however, that the Players Association and Major League Baseball have a common interest and desire in making our game the very best product for our fans. I know that our players are aware of and concerned about Baseball's competitive imbalance, and I am hopeful that, in our upcoming negotiations for a new collective bargaining agreement, both sides will work together to create a new economic structure in which everyone will benefit.

Let me be clear; this is a problem that cannot go unresolved. I am committed to making any and all internal changes that will expedite our journey back toward adequate competitive balance. I am also committed to continuing our efforts to grow Baseball's central fund, which has been used, and hopefully can be used more effectively, to balance our Clubs' payrolls. Indeed, I believe the central monies generated by Baseball's recent television contracts with Fox and ESPN provide an opportunity to improve the competitive state of our game.

I would like to conclude by stating that the game of Baseball is at its best when all Clubs—those from markets that are diverse geographically, demographically and economically—are provided a reasonably level playing field on which to compete. Our current economic structure prevents Baseball from being its best. It is time for "sweeping changes" that will, hopefully, reinvigorate all of our Clubs and their fans and enable Baseball to continue its renaissance and maintain its place as America's favorite spectator sport.

Thank you again for your time and attention.

Senator DEWINE. Let me now introduce Senator George Mitchell. Senator Mitchell was a member of the U.S. Senate from 1980 to 1995 and, of course, as we all know, served as the Senator Majority Leader from 1989 to 1995. Senator Mitchell serves as director to several multinational corporations, as well as Chancellor of the Queens University of Northern Ireland.

Recently, Senator Mitchell served as chairman of the peace negotiations in Northern Ireland. Under his leadership, a historic accord ending decades of conflict was agreed to by the governments of Ireland the United Kingdom and the political parties of Northern Ireland. For his service in Northern Ireland, Senator Mitchell has received numerous awards and honors, including the Presidential Medal of Freedom, the highest civilian honor that the U.S. Government can give.

Recently, Senator Mitchell has been asked by President Clinton to serve as part of a bipartisan commission tasked to investigate the causes of the recent outbreak of violence in the Middle East.

A lifelong fan and a student of baseball, Senator Mitchell sits on the board of the Florida Marlins. Last year, Senator Mitchell was appointed by Commissioner Selig as an independent member of the Blue Ribbon Panel formed to examine the issue of competitive imbalance in baseball.

We welcome back to the U.S. Senate the Honorable Senator George Mitchell. And let me just say, Senator Mitchell, on a personal note—and I know I speak for many Americans—we deeply appreciate your service to your country not only during the time you were in the U.S. Senate but since you have left the Senate. It has been a distinguished period in your career. There is nothing more important than working for peace, and you have done that and we applaud you for that and we thank you for that. We apologize for making you wait for an hour, as I will apologize to our other panel members for making them wait for longer than that.

Senator Mitchell, thank you very much.

STATEMENT OF GEORGE J. MITCHELL, FORMER SENATE MAJORITY LEADER, AND INDEPENDENT MEMBER, COMMISSIONER'S BLUE RIBBON PANEL ON BASEBALL ECONOMICS, WASHINGTON, DC

Mr. MITCHELL. Well, Mr. Chairman, thank you for your kind words and for the opportunity to speak to you today on behalf of the independent members of the Blue Ribbon Panel on Baseball Economics.

I use the term "independent members" purposefully. In undertaking this task, the four of us made clear to all concerned that we viewed ourselves as representatives of the public, the fans, not as representatives of either the owners or the players.

Our mission was, first, to determine whether baseball has a real, as opposed to a perceived problem of competitive balance. If our conclusion was in the affirmative, we were asked to decide whether the lack of competitive balance is due to the structure of baseball's economic system, or instead to other less permanent forces that are likely to change over time. Our final task was to provide recommendations for structural change, if necessary.

Our findings can be summarized as follows. First, large and growing revenue and payroll disparities exist and are causing problems of chronic competitive imbalance in baseball.

Second, these problems have become substantially worse during the period following the strike-shortened 1994 season and seem likely to remain severe unless Major League Baseball undertakes significant remedial actions that are proportional to the problem.

Third, the limited revenue-sharing and payroll tax approved as part of the 1996 collective bargaining agreement with the Players Association did not moderate payroll disparities or improve competitive balance. In fact, some low-revenue clubs used those dollars to become modestly profitable because they believed that their proceeds from revenue-sharing were insufficient to enable them to compete.

Fourth, high-revenue, high-payroll clubs completely dominate post-season play. In the last 6 years, including the 2000 post-season, out of the possible 48 post-season slots, only 3 clubs with payrolls in the bottom half of the industry made it to the post-season—45 to 3. Of the 189 post-season games played during this period, only 3 games were won by clubs with payrolls in the bottom half of the industry—186 to 3.

Mr. Chairman, these statistics, with other facts, lead inescapably to our conclusion that competitive imbalance does indeed exist and that baseball's economic structure is ultimately responsible. We also concluded that if the current trend of competitive imbalance is not reversed, baseball's status as an accessible, affordable and competitive spectator sport may be jeopardized.

Our recommendations are as follows. First, baseball's local revenue-sharing should be substantially increased. Second, the tremendous disparity in the clubs' payrolls should be reduced through a competitive balance tax that would impose a 50-percent tax on any club whose payroll is over a fixed threshold of $84 million. That threshold is the figure used by the parties the last year of the luxury tax negotiated as part of the 1996 basic agreement.

Third, all clubs should be encouraged to maintain a minimum payroll of $40 million. The combination of the competitive balance tax and the minimum club payroll is intended to move all major league franchises to within a payroll range that would permit real competition on the field.

With these mechanisms in place, the clubs' payrolls would likely move closer to a 2-to-1 ratio among the highest- and lowest-payroll clubs. Such a ratio would be similar to that which existed in baseball in the late 1980's and early 1990's, a period of substantial competitive balance, and just above the payroll ratio which currently exists in the National Basketball Association and the National Football Leagues, leagues commonly thought to have achieved a significant level of competitive balance.

Fourth, the Commissioner should use unequal distributions of central fund revenues to improve competitive balance and to assist low-revenue clubs in improving their competitiveness. Currently, central fund revenues are distributed to the clubs on a pro-rata basis.

Fifth, Major League Baseball should conduct an annual competitive draft during which the eight clubs with the worst season records would have an enhanced opportunity to select professional talent from the eight clubs that qualified for the post-season in the preceding year. This draft would only include players on the clubs' non-40-man rosters.

Sixth, Major League Baseball should implement reforms in the Rule 4 draft, which is baseball's entry player draft, including adding international players to the draft, eliminating compensation picks, increasing the opportunity for low-revenue clubs to sign top prospects by reducing the number of times a player can make himself eligible for the Rule 4 draft, allocating a disproportionate number of selections to chronically uncompetitive clubs, and allowing the trading of draft selections.

Seventh, Major League Baseball should also utilize strategic franchise relocations to address the competitive issues facing the game. Clubs that have little likelihood of securing a new ballpark or of undertaking other revenue-enhancing activities should have the option of relocating if better markets can be identified.

Finally, we encourage Major League Baseball to expand its initiatives to develop and promote the game domestically and internationally.

We do not believe that these changes will be easy to implement or that they are or will be universally popular. Our analysis suggests, however, that these reforms would reduce the current revenue and payroll disparities, preserve key player rights, and improve competitive balance, all to the ultimate benefit of teams, players, and fans.

The indisputable record of the past 6 years makes clear that more than half the clubs have no hope of being competitive when their players report to spring training in February. When there is no hope in a city, fans will inevitably turn their attention elsewhere, and players will look to move on to one of the few clubs that has the economic ability to field a competitive team.

We believe that our recommendations, if implemented, would return hope to those clubs, those players, and most importantly to the fans, those fans who have now lost their ability to dream about the magical season when their team will play for the World Series championship.

Mr. Chairman, thank you for your time and attention. I ask that my full statement be made a part of the record. I have summarized it briefly here. And I will be pleased to try to answer any questions that you may have.

Senator DEWINE. Senator, thank you very much for your testimony.

The Blue Ribbon Panel, as you have just outlined, recommended a 50-percent competitive balance tax on payrolls that were above $84 million. How do you respond to the argument that that, in effect, is a salary cap, and is that good or bad?

Mr. MITCHELL. It is not a cap.

Senator DEWINE. And, again, explain to us, Senator, why it is not a cap, why it doesn't have the effect of being a de facto cap, if not a de jure cap, and then try to respond, if you could, to the issue of what is in the best interest of the players, because Mr. Selig, the Commissioner of Baseball, has pointed out that ultimately much of this is subject to collective bargaining.

Mr. MITCHELL. It is not a cap. A cap, by definition, is a fixed ceiling beyond which no party can go even if they wish to do so. A competitive balance tax permits a party to go beyond that level if they make the judgment that it is in their interest to do so and they are willing to pay the necessary tax. It clearly is intended to serve as a restraint, but it is plainly, in law and in fact, different from a cap and is not therefore a cap.

With respect to the players, Mr. Chairman, here is what makes baseball different from most other businesses. If there are now 30 companies engaged in the manufacture of microphones or of drinking glasses or of tables or chairs, if 29 of those companies go out of business, the 30th can survive, and indeed perhaps prosper better than when the other 29 were in business.

But if 29 out of 30 major league baseball teams go out of business, the 30th cannot survive. It takes two teams to have a game and it takes several teams to have a league. So the economic factors which operate in a purely free market situation simply don't apply in full in this circumstance.

The players' interest is plainly in having a competitive balance in the sport so that several teams can compete, so that the leagues will be successful, and so that there will be a continuing successful overall effort as teams compete aggressively to reach the playoffs and the World Series. That is the long-term interest.

Now, I believe that baseball players are athletes of extraordinary skill and ability. People like us who have tried to play baseball, who played as kids, have an understanding of just how great these athletes are. And they deserve to be rewarded commensurate with their extraordinary skill. That is the case and will only continue to be the case if there is effective competitive balance, and I believe the players themselves recognize that. You cited one survey. I believe that all thoughtful commentators recognize that as well.

You can have both highly compensated players deservedly receiving remuneration that is commensurate with their skill, and at the same time an enterprise, baseball itself, two leagues that are fully competitive and actually make it better for the players and for the fans.

Senator DEWINE. As you point out, the fact that these are highly competitive individuals—they are by nature competitive; that is why they are playing baseball. Everyone wants to play for a team that has a shot at winning and everyone wants to go into the playoffs and everyone wants to go to the World Series. I mean, it is just basic human nature and it is something that we see time and time again when we see quotes from major league baseball players about being traded or not being traded and making those decisions.

If this last few years is this inexorable trend that will not change unless the structure of baseball is changed, what brought this about? In layman's terms, how would you explain it to the layperson who has not spent all the time you have spent studying this? What in the world changed? What happened in 1993, 1994, 1995? Why are things different today?

Mr. MITCHELL. Well, first, Mr. Chairman, I am a layman. I am not an expert. I am a baseball fan.

Senator DEWINE. You spent a lot of time on this report, though.

Mr. MITCHELL. I did spend a lot of time, but I had a lot of great help from people who know a lot more about baseball than I do, like George Will and others. In fact, if you don't mind, I would take a moment to tell a story which makes the point about my limited information.

My first day in the U.S. Senate—I had been appointed to complete an unexpired term. It happened so suddenly that when I came here, I was sworn in during a regular session in the Senate. They were interrupted and swore me in. I went back to my office and a young man who had been running Senator Muskie's staff who was now running my staff, just like these smart young men and women sitting up behind you here, Mr. Chairman, came up and said, well, Senator, we have an invitation for you here tonight to go and speak to a national convention of certified public accountants.

I said, gosh, that is amazing. How did they know I was going to be here? I didn't know myself until a day or so ago. He said, well, I didn't know. He said, they have had several cancellations and you are the only person they can think of who might not have anything to do tonight. I said, what do they want me to speak about? He said the tax code. I said, well, you want me to go to speak to 3,000 certified public accountants about the tax code? They all know a lot more about it than I do.

And this young man drew himself up, and with the confidence that young congressional aides often demonstrate said, Senator, with that attitude, you will never get anywhere in politics. [Laughter.]

So I went to speak to the accountants about the tax code, and here I am to talk about baseball. But I tell you that story to remind you that the real experts are sitting behind me.

Mr. Chairman, I think that these kinds of changes are going to be necessary if there is going to be a continuation of competitive balance. One can say, as some have, that the last 5 years are an aberration. At what point does it cease to become an aberration? When the facts are so dramatic, so overwhelming as they have been in the last 6 years, it suggests to me that this is not an aberration, that unless action is taken, this trend will continue, indeed accelerate. I think that when you have such clear symptoms of a problem, you act, lest you wait until the patient be dead and then you say, well, it really was a problem.

Senator DEWINE. Senator, one of the recommendations of the Panel is a proposal to include international players in the annual draft. Do you want to address this?

Mr. MITCHELL. Yes.

Senator DEWINE. Judging by the number of e-mails that we have received in our office, and calls, I think we have a pretty good baseball audience here today and maybe they are all familiar with the international draft, but maybe some of them aren't. Would you like to kind of explain that?

Mr. MITCHELL. The entry draft was established at a time when the vast majority of players in Major League Baseball were born in the United States. As we know, that is no longer the case. Baseball is truly an international sport. Therefore, the draft procedures, the entry-level draft procedures do not cover players who are born outside of North America.

As a consequence, you have a tremendous disparity in the manner in which signings are made, and it appears to us that this has enhanced the ability of the high-revenue, high-payroll clubs to sign talented players who are born in areas outside the area covered by the initial entry-level player draft, particularly the Caribbean and Latin America, and hindered the ability of the low-revenue, low-payroll clubs to do so.

Now, there are a number of other proposals we make with respect to the entry-player draft, all of which we think will operate in a synergistic manner to help to deal with the issue of competitive balance. That is one aspect of it.

Senator DEWINE. Explain to me what you mean when you talk about the central fund distribution. You say the Commissioner would be given, I guess, discretion to determine how some of this money would be distributed. Do you see any problem with granting the Commissioner of Baseball that kind of discretion, and what criteria would he use?

Mr. MITCHELL. Well, at the risk of oversimplifying, you can divide baseball revenues into two categories—local revenues which go directly to the clubs, and central revenues which go to the central office of the commissioner. At the present time, up until the circumstances which the commissioner described in his testimony with respect to the Internet, central fund revenues were distributed to clubs on a pro-rata basis. So they tended, of course, not to have any impact on the issue of revenue disparity.

We have recommended that the commissioner, who we believe should have, if he does not have the authority, use unequal distributions of central fund revenues to improve the competitive balance, to be able to make distributions not on a pro-rata basis but to those who need them.

Now, I wish to emphasize, included in our report and included in my testimony, but I didn't read it because of time constraints, we have also urged a minimum payroll of $40 million. And in order to encourage clubs who are below that level to come up to it, we have suggested that the commissioner not make unequal distributions to any club which has not come up to the minimum. That is one thing I think the players should find attractive; that is, the minimum payroll.

You rightly asked a question about the restraint that we offer at the top. We are also suggesting a minimum payroll level which increases significantly the amount of money paid to the players. Our concern is not the profitability of the clubs. That is a matter for the commissioner and the owners to deal with. Our concern is competitive balance.

What we concluded, based upon what happened in baseball a decade or more ago, based upon what happens in football and basketball, is that you can best achieve competitive balance by reducing the ratio of payroll disparity to roughly two to one, or less, as is the case in the NFL and the NBA. And we believe that the commissioner should have the authority to help achieve that goal by making unequal distributions from the central fund.

Senator DEWINE. You say you would encourage the $40 million as basically a floor. It is not a hard floor.

Mr. MITCHELL. That is right.

Senator DEWINE. But you put some incentives in there to make it happen. I assume that addresses the problem that we have heard about that we have with the revenue-sharing today and the distribution of the money today where a team will take the money and instead of investing in payroll, a team will invest in the bottom line and make it so they can maybe not have so much red or less red, or maybe even be in the black.

Mr. MITCHELL. That is correct, Mr. Chairman. That is the intent to do that. If you look at the profitability figures that are contained in our report, you will find in the most recent years the anomaly that only a very few clubs at the very top of the revenue payroll scale and a very few clubs at the very bottom of the payroll revenue scale are profitable. And that is precisely for the reason that you have just stated that some of the lower-revenue clubs obviously are making the judgment that the amount they are receiving from revenue-sharing is insufficient, even if entirely invested in talent, to lift them into a competitive position and have opted instead to use those funds to make themselves modestly profitable.

And we don't think that the right way to go, although we are not involved in questioning individual management judgment. We think the way to go is to reduce the disparity in the range of payrolls to give everybody a chance to be competitive.

Senator DEWINE. Let me ask about one more of the recommendations, and you talked briefly about this, but it is one of the recommendations that I don't think has received a lot attention. You would allow the weakest eight clubs to select one player from the non-40-man roster of the other teams. Basically, every team protects 40 people.

Mr. MITCHELL. That is correct.

Senator DEWINE. And I assume what this does is it stops the hoarding up of minor league players and others who are playing in AAA ball and they are sitting down there on a minor league team and probably could be playing major league baseball if they were under contract with some other team.

Mr. MITCHELL. That is correct, Mr. Chairman. It is an attempt to achieve a balance. You don't want to create a disincentive for good management in the good teams by invading their 40-man rosters. You also want to prevent the circumstance which you describe, and most importantly give the less competitive teams an opportunity to gain access to that talent, and by the same token to give more players who have major league ability the chance to play in the major leagues.

Senator DEWINE. One last question, Senator. The report is silent on the issue of salary caps, among other issues. There are other issues that you are silent on. I wonder if you can explain what the thought process was of how you excluded some issues and included other issues.

Mr. MITCHELL. In a general sense, Mr. Chairman, we were not charged with the responsibility of making a complete critique of all aspects of the economics of Major League Baseball. We were asked to address specifically the issue of competitive balance, and therefore we focused our attention on those factors which we felt would contribute directly to competitive balance.

As in all such endeavors, there is an element of judgment involved. When you stand up on the Senate floor and give a speech, one of the first things you must decide is the point you want to make and what are the elements that contribute to that point. And you can't deal with everything, and so we couldn't deal with everything.

On the issue of the salary cap, we concluded that the alternative that we suggested was the best way to proceed in terms of making a realistic assessment of the situation, one which could attract broad support from the owners, the players, and the fans, and one that we hoped could be implemented along with the other reforms in a reasonably prompt way.

We were, of course, conscious of the fact that a cap had been much discussed in the prior negotiations, was a very controversial matter, and had been rejected. The fact is that in the prior agreement reached between the owners and the players, there is revenue-sharing. So enhancing revenue-sharing does not introduce a wholly new factor.

There is, or was, a luxury tax. So enhancing that tax, describing it, we feel, accurately as a competitive balance tax does not introduce a completely new factor that either side has previously rejected. Indeed, both sides have previously signed up to this. We felt this was the proper approach in terms of trying to come up with a package of recommendations that, if fully implemented, we believe will help achieve competitive balance and that has a realistic prospect of being implemented.

Senator DEWINE. Senator, I believe what the Blue Ribbon Panel is saying, what Commissioner Selig said and what you have said, in trying to explain this whole problem to the average fan—and let me take a shot at this, and tell me if I am correct in what you are saying.

Baseball is still operating under a system that the revenue was based primarily on ticket sales, maybe some local radio, maybe some local TV that was not huge. And baseball is still operating under that system. In fact, baseball has even moved a little bit away from that system.

I was always under the impression that the visiting team, for example, got a certain percentage of the gate at some point, and baseball has moved a little bit away from that, I believe. Somebody can correct me if I am wrong about that, but the commissioner is shaking his head correctly. So in a sense, we have moved even further away from that, or even further back.

Football and basketball really came of age as major sports since the advent of TV and the advent of bigger and bigger and bigger contracts, and maybe had the opportunity or an easier chance of—they didn't have to reinvent themselves; they basically invented themselves. But baseball is still back to the era of how many people you put in the ballpark and what you did to do that. Yes, New York certainly had a competitive advantage in that sense over a Cincinnati or a Pittsburgh, but it wasn't such a competitive disadvantage.

Is that a simplistic summary of where we are today?

Mr. MITCHELL. I think it is an accurate summary, Mr. Chairman. I think you have perceived what the problem is and have identified it.

Before I address that, could I make a comment on my previous answer? You asked me to describe the thought process of the Panel. I am one of four members and I have described the thought process that went through my mind. George Will is sitting here.

Senator DEWINE. We will get to Mr. Will in a minute here.

Mr. MITCHELL. I hope you give him the chance.

Senator DEWINE. We will.

Mr. MITCHELL. There are a few things in life that he and I disagree on, but I hope this is one that we do agree on.

Senator DEWINE. I am surprised you disagree.

Mr. MITCHELL. Well, a few things not involving baseball.

Senator DEWINE. The important things.

Mr. MITCHELL. I think you have identified it correctly, Mr. Chairman. The reality is when I started going to ball games at Fenway Park, in Boston, as a young man, and when you started going in Cincinnati, life was completely different. Those television cameras right here have transformed every aspect of American life, not just baseball. They have transformed politics, in which you and I have been engaged for a long time. They have transformed the social mechanisms of every society, including our own.

I don't think that anyone anticipated that cable television rights would be a huge factor in local revenues several years ago. They are now. It is one of the major contributing factors to the disparity in revenues that is occurring. It is the technical ability to now transport a visual image of an event all over the country and the world that has transformed the economics of baseball.

Therefore, it has made possible changes which are very good. As the commissioner said, 73 million people saw ball games. Players' salaries are high and going higher. The problem is that this can't continue in the current state. And before the patient dies, remedial action should be taken, and I believe the remedial action that we have suggested is sensible, reasonable, proportional to the problem, and we hope, if adopted, will contribute to a solution.

I thank you very much, Mr. Chairman, for giving me this time and for listening to my comments and for putting my statement in the record.

Senator DEWINE. Senator, we thank you very much.

Mr. MITCHELL. Thank you.

[The prepared statement of Mr. Mitchell follows:]

PREPARED STATEMENT OF SENATOR GEORGE J. MITCHELL

Thank you for the opportunity to speak to you today on behalf of the independent members of the Commissioner's Blue Ribbon Panel on Baseball Economics.

In January 1999, Baseball Commissioner Allan H. Selig formed the Blue Ribbon Panel to examine and address the issue of competitive imbalance in Baseball. I was appointed as an independent member of the Panel along with Richard Levin, President of Yale University; Paul Volcker, former Chairman of the Board of Governors of the Federal Reserve System; and George Will, political columnist and commentator. I use this term "independent member" purposefully when I describe myself and my three colleagues. In undertaking this task, the four of us made clear to the Commissioner that we viewed ourselves as representatives of the public—the fans—and not as representatives of owners or players.

The mission that the Commissioner asked us to undertake was not an easy one. We were first asked to determine whether Baseball has a real, as opposed to a perceived, problem of competitive imbalance. If our conclusion was in the affirmative, we were asked to decide whether the lack of competitive balance is due to the structural characteristics of Baseball's economic system or is due instead of other less permanent forces that are likely to change over time. Our final task was to provide recommendations for structural change, if necessary.

The Panel's investigation and analysis took one and a half years to complete. During that time, the Commissioner's Office made available to us virtually every conceivable form of economic data. We had data on revenues, expenses, debt, franchise purchases and sales, as well as numerous measures of on-field performance. The Commissioner's Office also made available to us its entire professional staff which we utilized to perform extensive analysis of the available data. We also had the benefit of numerous presentations from and interviews with owners and executives from all types of teams—large market, small market, individually-owned and corporate-owned. Also, at our request, we had a formal meeting with representatives of the Major League Baseball Players Association.

Before I summarize the Panel's findings, I believe it is important to address two preliminary matters. First, after the Report was made public, some commentators criticized it on the basis that we relied on Club-provided financial information, particularly profitability data. These criticisms are ill-founded because nothing in our report or recommendations turns on the issue of Club profitability or a lack thereof. The recommendations set out in our report are aimed exclusively at the issues of disparity and competitive imbalance—the issues that affect the game's fans and the other public interests affected by Baseball. In our view, profitability is primarily a Club concern and it is a concern which received very little attention in our report.

Having said that, we do not doubt the accuracy of the financial data—revenues, expenses, profits and losses. As part of the 1990 Basic Agreement, the owners and players formed a joint study committee composed of representatives of both parties and outside experts appointed by both sides. That joint study committee concluded that Baseball's financial data were better than those found in most American industries. Since that time, the owners and the players agreed to a local revenue sharing plan that transfers over $100 million a year from high revenue Clubs to low revenue Clubs based on the same data that we studied. Pursuant to the parties' collective bargaining agreement, these data are subject to review and audit by both Ernst & Young and PricewaterhouseCoopers. Further, that same collective bargaining agreement grants the Players Association the right to demand its own audit of the data and to file a grievance over any accounting irregularity, including any dispute concerning the auditor's treatment of "related party transactions." The Players Association has never felt compelled to exercise any of these rights during the five revenue sharing years covered by the Basic Agreement. This is compelling evidence for the proposition that Baseball's audited financial information is complete and accurate. Thus, any criticism of our report on this basis is not supported by the facts.

A second preliminary issue relates to the role of the independent members. We, the independent members, did not and do not consider ourselves as mediators in the collective bargaining process but rather as outside, independent analysts for the game. Our findings and recommendations may not meet with the universal approval of either Club ownership or with the Major League Baseball Players Association, but we believe our input will stimulate discussion and objective analysis and consideration from those two parties as well as from the parties' ultimate audience—the fans.

The Panel's findings can be summarized as follows.

First, large and growing revenue and payroll disparities exist and are causing problems of chronic competitive imbalance in Baseball.

Second, these problems have become substantially worse during the period following the strike-shortened 1994 season, and seem likely to remain severe unless Major League Baseball undertakes significant remedial actions proportional to the problem.

Third, the limited revenue sharing and payroll tax approved as part of the 1996 collective bargaining agreement with the Players Association did not moderate payroll disparities or improve competitive balance. In fact, some low revenue Clubs used those dollars to become modestly profitable because they believed that their proceeds from revenue sharing were insufficient to enable them to compete. In other words, some Clubs concluded that payroll disparity was so great and revenue sharing was so modest that the investment of revenue sharing dollars in additional payroll was a futile act. Rather than engaging in such futility, the Clubs used revenue sharing to improve their bottom lines.

Fourth, high revenue, high payroll Clubs completely dominate post-season play. In the last six years, including the 2000 post-season, out of the possible 48 post-season spots, only four Clubs with payrolls in the bottom half of the industry made it to the post-season. Of the 189 post-season games played during this period, only three (or less than two percent) were won by Clubs with payrolls in the bottom half of the industry.

These facts lead inescapably to our ultimate conclusion that competitive imbalance does indeed exist and that Baseball's economic structure is ultimately responsible. We also concluded that if the current trend of competitive imbalance is not reversed, Baseball's status as an accessible, affordable, and competitive spectator sport may be jeopardized.

Concluding that Baseball now suffers from chronic and systemic competitive imbalance was not difficult in light of the foregoing data. Crafting effective and appropriate remedial measures to solve this problem, however, is more complex. Nevertheless, as I stated previously, our Panel concluded that strong and proportional remedies are required to fix Baseball's problem. We do not believe that any one change in the current economic system alone will fix the growing competitive and economic imbalance. Rather, we concluded that the implementation of a package of changes is necessary.

Our recommendations to the Commissioner are as follows.

First, Baseball's local revenue sharing should be substantially increased. Currently, Baseball's revenue sharing system operates under what is called the split pool plan. This plan requires each Club to contribute 20 percent of its net local revenue to a pool. The pool is then subdivided into two parts. One part—which represents 75 percent of the pool—is redistributed equally to all Clubs. The second part—the remaining 25 percent—is redistributed only to those Clubs below the industry's average local revenue. Clubs further below the average revenue receive a greater share of the second pool. This plan has created anomalous results in the sense that some middle revenue Clubs bear a greater relative burden from revenue sharing than do the very highest revenue Clubs.

We suggested that the Clubs share at least 40 percent, and perhaps as much as 50 percent, of all Clubs' local revenues (less local ballpark expenses) under what is known as a straight pool plan. Local revenues are composed of a Club's gate receipts, local television, radio and cable rights fees, ballpark concessions, advertising and publications, parking, suite rentals, and income from post-season and spring training games. The straight pool plan treats all Clubs equally in that 40 (or 50) percent of local revenue is contributed by each Club to a single pool which is then redistributed equally to all Clubs.

Second, we suggested that the tremendous disparity in the Clubs' payrolls should be reduced through a "competitive balance tax" that would impose a 50 percent tax on any club whose payroll is over a fixed threshold of 484 million dollars. The recommended fixed threshold is approximately the threshold used by the parties in 1999, the last year of the "luxury tax" negotiated as part of the 1996 Basic Agreement. The recommended "fixed threshold" and the proposed increase in the tax rate from 35 to 50 percent are both intended to refine the "luxury tax" adopted in 1996 in a manner that would more effectively address the competitive balance problem.

Third, we recommend that all Clubs be encouraged to maintain a minimum payroll of $40 million. The combination of the competitive balance tax and the minimum Club payroll is intended to move all Major League franchises to within a payroll range that would permit real competition on the field. With these mechanisms in place, the clubs' payrolls would likely move closer to a 2 to 1 ratio among the highest and lowest payroll Clubs. Such a ratio would be similar to that which existed in Baseball in the late 1980s and early 1990s (a period of substantial competitive balance) and just above the payroll ratio which currently exists in the NBA and NFL, leagues commonly thought to have achieved appropriate levels of competitive balance.

Fourth, the Office of the Commissioner should use unequal distributions of its central fund revenues to improve competitive balance and to assist low-revenue Clubs in improving their competitiveness. Currently, central fund revenues are distributed to Clubs on a pro rata basis. In January 2000, the Commissioner was granted new powers to distribute central revenues in unequal amounts. We believe the Commissioner could use unequal distribution of these central revenues to help address the local revenue disparity problem, to encourage revenue-enhancing activities and to assist low revenue Clubs that have developed young talent. We suggested that Clubs which do not meet the minimum payroll obligation of $40 million would be ineligible for distributions from this fund.

Fifth, Major League Baseball should conduct an annual competitive draft during which the eight Clubs with the worst season records would have an enhanced opportunity to select professional talent from the eight Clubs that qualified for the post-season the preceding year. This draft would only include players on the Clubs' non-40-man rosters. This recommendation is intended to promote long-term competitive balance by preventing high revenue franchises from stockpiling talent in their farm systems. The competitive draft, however, would protect the Clubs' 40-man rosters, thereby rewarding successful Clubs for good player management and allowing those Clubs to retain their established players.

Sixth, Major League Baseball should implement reforms in the Rule 4 draft, which is Baseball's entry player draft. Reforms would include adding international players to the draft, eliminating compensation picks, increasing the opportunity for low-revenue Clubs to sign top prospects by reducing the numbers of times a player can make himself eligible for the Rule 4 draft, allocating a disproportionate number of selections to chronically uncompetitive Clubs, and allowing the trading of draft selections. By expanding and improving the Rule 4 draft, we hope to ensure that all Clubs have equal access to talent at the entry level in much the same manner as do teams in other professional sports.

Seventh, Major League Baseball should also utilize strategic franchise relocations to address the competitive issues facing the games. For example, Clubs that have little likelihood of securing a new ballpark or undertaking other revenue-enhancing activities should have the option of relocating if better markets can be identified. While Baseball in general, and the current Commissioner in particular, have vigorously protected baseball fans from the "franchise free agency" that has plagued the other professional sports, we believe that Major League Clubs should not be sentenced to markets that will not or cannot support a Major League Club.

Finally, we encouraged Major League Baseball to expand its initiatives to develop and promote the game domestically and internationally.

The Panel does not pretend to believe that these changes will be easy to implement or that they will be universally popular. Our analysis suggests, however, that the package of reforms would reduce the current revenue and payroll disparities, preserve key player rights and improve competitive balance to the ultimate benefit of teams, players and fans.

Every fan wants their team to have a chance to compete, to play in the post-season and, perhaps, to win a championship. Fans in every Major League city want to follow the daily exploits of their favorite team from the beginning of March, through the long summer months and, if things go well, deep into October. But the indisputable record of the past six years makes clear that more than half of the Clubs have no hope of being competitive when their players report to spring training in February. When there is no hope in a city, fans turn their attention elsewhere and players look to move on to one of the few Clubs that has the economic ability to field a competitive team. We believe that our recommendations, if implemented, would return hope to those Clubs, players and, most important, fans who have lost their ability to dream about that magical season when their team would play for the World Series championship.

Thank you for your time and attention. I would welcome the opportunity to answer any questions that the members of the Committee may have.

Senator DEWINE. Let me introduce our third panel and apologize to our third panel for having to wait, although I hope they found the two first panels to be as interesting and as informative as I have. As the panel members are coming up, let me introduce them.

George Will's newspaper column has been syndicated by the Washington Post since 1974. Today, it appears twice weekly in just under 500 newspapers in the United States and in Europe. In 1977, he won a Pulitzer Prize for commentary in his newspaper columns. Well regarded as one of our Nation's foremost political commentators, Mr. Will is equally provocative on the subject of baseball. Whether it is astro turf, the designated hitter, or advertising on players' uniforms, you always know where George Will stands on efforts to tinker with America's pastime.

In 1990, Mr. Will published *Men at Work: The Craft of Baseball*, which topped the New York Times Bestseller List for 2 months. In 1998, he offered us *Bunts: Curt Flood, Camden Yards, Pete Rose and Other Reflections on Baseball*, a best-selling collection of new and previously published writings by Mr. Will on baseball.

Along with Bob Costas, Mr. Will gave voice and perspective to the monumental Ken Burns miniseries on baseball. Mr. Will sits on the boards of the Baltimore Orioles and the San Diego Padres. Last year, Mr. Will was appointed by Commissioner Selig as an independent member of the Blue Ribbon Panel formed to examine the issue of competitive imbalance in baseball.

Bob Costas has been with NBC Sports since 1979. During this time, he has covered every major sport, but is perhaps most identified with the Olympics and with baseball. During the past few years, Mr. Costas has handled play-by-play for NBC's All Star, playoff, and World Series telecasts. He also called last year's NBA's playoffs and the championship series. Mr. Costas has won 12 Emmy Awards, eight of which were for Outstanding Sports Broadcaster. He has also been named National Sportscaster of the Year seven times by his peers. He is the author of the book *Fair Ball: A Fan's Case for Baseball.*

Rodney Fort joined the Department of Economics at Washington State University in 1984. The professor has extensively studied professional and college sports. He is the author of a number of journal articles and books, including books coauthored with Jim Quirk entitled *Pay Dirt: The Business of Professional Team Sports and Hard Ball: The Abuse of Power in Pro Team Sports.*

Frank Stadulis has served as President, Chief Executive and Chairman of United Sports Fans of America since its inception in 1996. He has appeared in interviews with Fox Sports, CBS Sportsline, MSNBC, and other national and local television and radio shows. He appeared most recently at a National Press Club Forum on Violence and Sports.

We welcome all of our witnesses here today. Those who have submitted testimony, it will become a part of the record. I would invite each one of you to make a statement and then we will begin a discussion.

Mr. Costas, we will start with you.

PANEL CONSISTING OF BOB COSTAS, SPORTSCASTER, NATIONAL BROADCASTING COMPANY, ST. LOUIS, MO; RODNEY FORT, PROFESSOR OF ECONOMICS, COLLEGE OF BUSINESS AND ECONOMICS, WASHINGTON STATE UNIVERSITY, PULLMAN, WA; GEORGE F. WILL, SYNDICATED COLUMNIST, WASHINGTON POST NEWSPAPER, AND INDEPENDENT MEMBER, COMMISSIONER'S BLUE RIBBON PANEL ON BASEBALL ECONOMICS, WASHINGTON, DC; AND FRANK STADULIS, PRESIDENT AND CHIEF EXECUTIVE OFFICER, UNITED SPORTS FANS OF AMERICA, BOCA RATON, FL

STATEMENT OF BOB COSTAS

Mr. COSTAS. Well, my statement will be very brief. I don't present myself as an expert on all the often complex political, legal, and economic aspects of the questions we are discussing today.

My purpose in writing and commenting on the issues facing baseball has been to present those issues to a mainstream audience in what I hope is a thoughtful, common sense fashion from the perspective of someone who is not an advocate for either side, but whose concern is the overall health and best interest of the game.

As it happens, my book came out in early spring. The Blue Ribbon Panel report came out some months after that, and our conclusions were remarkably similar both in the abstract and in the particulars. And as I look toward my friend, Bud Selig, while we may have our occasional disagreements on the wild card or on inter-league play, I don't know why he and I should ever be at odds on the circumstances surrounding baseball's present economic imbalances because we agree on that pretty close to a hundred percent.

I think without going back over much of the ground ably covered by Senators DeWine and Mitchell and Commissioner Selig, it might be worth noting that the likes of Andrew Zimbalist, the esteemed economist from Smith who has been used at times almost as a house economist—and I don't mean that disparagingly toward Professor Zimbalist—by the Players Association, or people like myself who over the course of the last 20 years have consistently sided with the players in their ongoing battles with the owners—people like Zimbalist, people like myself, people in the press who consistently have believed that the players' side was more persuasive than the owners' side now are forced to conclude, as Senator Mitchell just said, that the evidence is so overwhelming, so dramatic, so indisputable over the past 5 or 6 years that the arguments that used to compel no longer compel, and new arguments do, and baseball needs a new paradigm for how it will approach the upcoming seasons in this new millennium.

There is a point that I would like to make before we get back to the economics of the game and then I will relinquish the microphone. I have a concern that the atmosphere of economic crisis, real and perceived, around baseball impacts decisions that affect on-the-field issues.

Now, thoughtful fans can debate whether the DH should stay or go, whether radical realignment is required, whether there should be inter-league play, and if so how it should be formatted, whether the wild card is a good idea or not, and whether every World Series game should be played at night, and if so at what time of night.

But I think we can agree that it would be best to make those decisions absent an atmosphere in which the clubs feel that they are compelled to grab for every last dollar from every last available source. Just as no one would advise you to go grocery shopping if you haven't eaten in 2 days because you are likely to make rash decisions, I think baseball would be better able to consider the on-field issues in a clear-headed way if this economic crisis were eased.

Then it might be possible—and cynics might say, well, it won't make any difference; they could be as profitable as profitable could be and they would still grab for every last dollar. Perhaps so, but that will never be put to the test until some sort of economic equilibrium prevails, and then the on-field issues could be considered in a more sober fashion.

Senator DeWine. Mr. Costas, thank you very much.

Mr. Fort.

STATEMENT OF RODNEY FORT

Mr. Fort. Thank you, Senator DeWine, and thank you for entering my statement into the record.

I attempted to examine the relationship between revenue imbalance and competitive balance in Major League Baseball; then just taking that balance as given, evaluated a variety of devices aimed at changing that after-the-fact outcome. Then I looked at the root of revenue imbalance, and that suggests to me a more dramatic, intrusive approach.

Revenue disparity is a roller coaster ride through the 1990's. There is historically very unbalanced revenue in the middle of the decade. Turning to the outcome on the field, the balance of play during the season has improved steadily over the past 40 years. The decade of the 1990's was more balanced on the field, on average, than any of the preceding 3 decades.

A detailed look at the 1990's shows that even though revenues became more balanced at the end of the decade, balance on the field in terms of winning percents has gone the other direction. Recent playoff outcomes continue the typical outcome in Major League Baseball. Large-revenue-market teams always have dominated the playoffs and the World Series, and they continue to do so. It isn't clear whether that dominance has worsened in the 1990's.

On the ameliorative devices offered in the Blue Ribbon Panel report, they are aimed at treating the symptoms of revenue imbalance and they are a mixed bag. Two will have no impact whatsoever—draft alterations and the development of the game. The implementation impacts of the rest are problematic. The most likely to work are enhanced net local revenue-sharing and the luxury tax, but appropriate levels must be chosen and there are collective bargaining obstacles.

Nowhere to be seen in the discussion of these devices is the impact on players. In every case, except the unequal central fund distributions, franchise relocation and game development, the impacts on players are negative and they will bear large in upcoming collective bargaining agreement negotiations.

Going to the heart of the matter, the basis of revenue disparity is the maintenance of exclusive territorial rights of baseball. Some territories are simply worth more than others. That suggests that it is the behavior of the league in the maintenance of those territories that is the heart of the issue, and one way to think about fixing that type of problem is in terms of making leagues more competitive, economically speaking.

In other words, I have suggested that that can happen by going back in time, actually, to a situation that existed in the 1900's where there were two competing major baseball leagues, the American League and the National League. That would require care. The propensity of all rival leagues in baseball has been to merge or regroup into one dominant league all over again. If that kind of competition were to work, it would have to be monitored carefully over time and that would be an antitrust job.

Thank you.

[The prepared statement of Mr. Fort follows:]

PREPARED STATEMENT OF RODNEY FORT

I. INTRODUCTION

The issue at hand is whether revenue disparity in Major League Baseball (MLB) has been increasing over time and the impact of disparity on competitive balance. It is difficult to imagine an issue of greater importance to sports leagues. If competitive imbalance becomes great enough, there is a very real danger that fans will lose interest in the weaker teams and, eventually, only those larger revenue market teams will survive in the long run. This general fan interest is often referred to as "brand" name identification. Judging by the recent Blue Ribbon Panel Report, 2000 (BRP 2000), MLB itself is worried that the current level of imbalance is reducing MLB's brand name identification.

From the perspective of competition policy, it is worth a quick review of just what it is that leagues do for member teams. On the one hand, joint action by individual owners through MLB is necessary in order for league play to occur at all. Scheduling, a common set of rules, officiating, appeals of officiating, and playoff design all require cooperation by teams. And this last has become one of the primary avenues of revenue enhancement and fan satisfaction.

Even at this level of required cooperation, economics comes into play. In scheduling, the match-ups between teams are of different value. Teams with the highest degree of fan interest want to play each other more often because the revenue potential is higher for them. But this would reduce the overall brand name value of the league and, early on, every league adopted a more balanced schedule, eventually in division play. This balanced approach to scheduling postponed immediately greater revenues for some teams but raised the overall, longer-term benefit of all teams by generating a high degree of general fan brand identification.

Now, the rest of what MLB does is entirely grounded in the economic interest of member teams. There are a number of activities teams undertake through MLB that do not require joint action. Since teams undertake these activities through their league rather than individually, one can only surmise that they are better off by that approach.

First, MLB maintains territorial exclusivity for member teams. Since a team in one exclusive territory can generate different revenue streams than another team in another exclusive territory, it is this function of leagues that generates revenue disparity in the first place. This activity is not required in order for play to happen. But the careful management of team location does determine the value of each MLB franchise.

MLB also handles negotiations that could be done by individual teams. TV negotiations are one example. Centralized negotiation isn't required since, in MLB, individual teams negotiate their own local TV outcomes. They could just as easily decide about their participation in national contracts, but choose to do that through MLB, itself. Leagues also handle negotiations with the Major League Baseball Players Association (MLBPA). Nowhere else, to my knowledge, in the private American economic system, do producers join forces in their negotiations with organized labor. for example, each of the individual major auto manufacturers in the U.S. negotiates individually with the United Auto Workers. Since joint negotiations are not required, again, one surmises that teams are better off under this practice. Finally, MLB plays an important role in the relationship between teams and host cities. While the league does not negotiate for teams directly in this case, it does set the stage by carefully managing the availability of alternative locations.

The issue at hand concerns the management of franchise exclusivity. Large revenue market teams generate greater revenues because of territorial protection by MLB. In Section II, revenue disparity is examined directly. Are revenues increasingly disparate over time in MLB? Is the level of revenue dispersion related to season winning percents and playoff outcomes? In Section III, comments are offered on whether or not revenue disparity is a problem for MLB. Regardless of the assessment in Section III, there is nothing to stop one from wondering about how competitive balance can be altered. On this issue, there are two approaches. In Section IV, following the approach in the Blue Ribbon Panel report, 2000, the level of competitive balance is taken as given and devices suggested to alter it are evaluated. In Section V, the second approach is to go offer an approach to competitive balance that is based on an identification of the root cause, itself, namely, MLB's power over team location. The summary is in Section VI.

II. REVENUE DISPARITY AND COMPETITIVE BALANCE

What is the level of revenue disparity in MLB? How do current levels compare, historically and to other leagues? The data sources are earlier Hearings, a series for 1990–1997 from surveys of owners by writers at Financial World (now defunct) and Forbes, and the BRP 2000 for 1995–1999. Different analysts have different feelings about the veracity of these data but here is what they tell us about revenue disparity.

Table 1 portrays MLB revenue disparity in terms of Gini coefficients for each the years with data. The Gini coefficient is a well-known measure of disparity. Its values are between zero and one with larger values of the coefficient indicating higher levels of disparity. Since the eventual object of analysis is competitive balance, especially during the playoffs, the data are shown for the AL and NL, separately, as well as for the MLB.

First, note that recent levels of revenue imbalance, for some years in the 1990s, are as high in each league as in any year except the early 1950s in the AL. The highest levels occurred in the early 1950s in the AL for a very familiar reason. Typically, according to the earlier Hearings data, the New York Yankees had four times the revenue of the lower revenue teams in the AL. Second, note that the AL has always had more revenue imbalance than the NL. All of the decade averages (sparsely covered in the 1980s data) are larger for the AL. Doubtless, the reason lies in the fact that the New York Yankees, the team with the largest local revenues in MLB, plays in the AL. Finally, the behavior of revenue imbalance in the 1990s is the same in both leagues. By both popular accounts and the BRP 2000, an abrupt jump in revenue disparity occurred over the 1994 and 1995 seasons. By the popular account, that disparity continued to grow in 1996 and 1997 in both leagues. The BRP 2000 data do not show as marked a trend at the end of the decade.

From the policy perspective, it is useful to compare the disparity in MLB revenues with other pro team sports since different mechanisms for revenue distribution are in place in different leagues. Table 2 gives the Gini index comparison for what little data exists in other leagues (also found in Financial Work/Forbes; earlier Hearings data also exist for comparisons in realier periods, but time constraints precluded such an analysis). The NFL clearly is the most balanced league in terms of revenues. Of course, this occurs for two reasons. First, the NFL shares the highest portion of local revenues of all leagues—all of its broadcast revenues, national and local, are shared equally (except for small radio contracts). Second, if it actually is enforced and functions as intended, the NFL salary cap would drive more revenue balance by reducing spending on talent by large revenue market teams. The ratio of the MLB to NFL Gini coefficients typically has been about 3.1. The distribution of MLB revenues is dramatically more unbalanced than NFL revenues. The primary lesson is that, apparently, the institutional difference in local revenue sharing and, potentially, the salary cap, make for more revenue balance.

If a problem is caused by revenue disparity, but would be revealed by competitive balance problems on the field; larger revenue market teams would dominate. There are two ways to examine outcomes on the field, the day by day outcomes measured by winning percent and playoff outcomes. The usual measure of variation in winning percents is the standard deviation. Increases in the standard deviation indicate less balanced play.

Table 3 summarizes the standard deviation of winning percents on a decade by decade basis for the last forty years. On average, in both the AL and NL, as measured by the standard deviation of winning percent, play is as balanced in MLB as it has been since the 1960s. The decade average of the standard deviations has been falling for forty years. Indeed, the 2000 season just completed is the most balanced in the last 40 years in the AL and about par for the course in the NL compared to the last two decades. In our first book, "Pay Dirt: The Business of Professional Team Sports," James Quirk and I show that this is true for MLB generally back to the 1900s, and especially true since the introduction of free agency after the 1975 season.

A look behind the averages for the 1990s, shown in Table 4, reveals something very interesting. Over the early 1990s, where revenues become more balanced (Table 1), imbalance on the playing field held quite steady. When revenue imbalance jumped in the AL in the mid-1990s, imbalance on the field was as high as any time during the decade. But when revenue imbalance eased at the end of the decade, imbalance on the field climbed. Whether this is a trend cannot be known at this time but is certainly worth watching for two reasons. First, and the general issue for these hearings, imbalance can be a concern in terms of league health. Second, it is interesting from the theoretical standpoint that revenue balance and balance on the field moved in opposite directions for these last two years of the decade.

While day to day outcomes matter to leagues and fans, so do playoff opportunities. Table 5, updated from our work in Pay Dirt (p. 257), shows one measure of playoff opportunity—the amount of time between titles. In years when there were only eight teams in each league, completely balanced playoff opportunity would show all teams with a title every eight years. Until just very recently, complete balance would have each team winning a title every fourteen years. Table 5 shows the more successful teams, with ten years or less between titles, on average, and at least ten years in a league. Historically, the comparison depends on the identification of small and large revenue market teams, but Table 5 strongly indicates that titles are unequally distributed and, typically, in favor of large revenue market teams.

Over the last decade, the story is quite similar. Table 6 shows the title winners in each league for the 1990s and the recently ended 2000 season. It's always a judgment call about large and small revenue teams, but no more than four ALCS (1990–1992, 1995) and two NLCS (1990, 1995, and 1998) involved small revenue market teams in the 1990s. And at most two winners of each league championship series have been small revenue market teams (Oakland and Minnesota in the Al, Cincinnati and San Diego in the NL). And only one World Champion, the Twins in 1991, can reasonably be called a small revenue market team. These observations are not far from those of the Blue Ribbon Report 2000, which concentrates on 1995–1999 (p. i):

> During this five-year period, no club from payroll Quartiles III or IV won a DS or LCS game, and no club from payroll Quartiles II, III or IV won a World Series game.

In Pay Dirt (p. 260), we also show that over the 1900–1990 period the top 10% of teams, in terms of titles won per year, won just about 30% of all of the AL titles and just under 25% of all of NL titles. Dropping down in terms of titles won per year, the top 20% of title winners have won almost 55% of the titles in the AL and just under 40% of the NL titles. Again, in the 1990s, this concentration of titles is apparent. The Yankees won 30% of the titles in the 1990s and Oakland won 10%. In the NL, Atlanta won a full 50% of the titles, the Mets won 10% and the Reds another 10%. So, historical title heavyweights accounted for 40% of the AL titles and 70% of the NL titles.

So, all in all, MLB revenue disparity is a roller coaster ride through the 1990s with historically very unbalanced revenue in the middle of the decade. Compared to the NFL, MLB revenues are dramatically unbalanced, indicating that there are lessons in the institutional structure of other leagues if the observed level of imbalance in MLB is a problem. Turning to the outcome on the field, the balance of play during the season has improved steadily over the past forty years. The decade of the 1990s was more balanced, on average, on the field than any of the preceding three decades. If the just completed 2000 season is any indicator, the trend continues in the AL while it appears to have slowed in the NL. And a detailed look at the 1990s shows that even though revenues became more balanced at the end of the decade, balance on the field in terms of winning percents has gone the other direction. Recent playoff outcomes are a continuation of the typical outcome in MLB. Large revenue market teams always have dominated the playoffs and World Series and they continue to do so. It isn't clear whether playoff dominance has worsened in the 1990s.

III. IS OBSERVED REVENUE DISPARITY A PROBLEM IN MLB?

Clearly, there is revenue disparity, unbalanced play on a day to day basis, and unequal playoff opportunities in MLB. But is the level of imbalance a problem? First, let's remember that focusing on a particular point in time without any historical reference can make a problem appear larger than it really is. This is doubly true if the period of time under scrutiny is the end of a cycle. In his book, The Market Structure of Sports, Professor Gerald Scully demonstrates that there is a distinct pattern to winning in MLB. By focusing on a particular point in time, we only see a snapshot of these cycles among teams. From this perspective, today's Yankees may just be yesterday's Detroit Tigers, to be replaced by the upcoming equivalent of the Oakland Athletics of the 1970s.

The results in Table 5 reveal the danger in looking only at the last few years. As before, with revenue disparity, an historical look reveals that playoff disparity has always been with us. The years/title data in Table 5 show that this has always been the case. Just looking at any particular period and saying unequal playoff opportunities have worsened doesn't make it so. And, interestingly, in what many are calling an age of disparity, teams that aren't even in the running by the criteria in Table 5 added to their titles in the 1990s—the Twins, Blue Jays, and Indians in the AL and the Phillies, Marlins, and Padres in the NL. Disparity in titles won still reigns, but a few teams managed to close the "title gap." And Atlanta wouldn't even be in the table if it weren't for their splendid play in the 1990s!

What will happen in the next decade? All we have to go on is the past. And all we really know is that there are cycles in winning. Perhaps the only thing the data show in the last section show is that we are at the end of a cycle for the current winning teams of the past few years and others will take their place soon. On the other hand, we can't know whether or not an entirely new regime has begun. Only time will tell.

While historical reference points are useful, there are other types of reference points. One is the level of balance that fans would most prefer. This perspective is the same as taking the interest of consumers in antitrust investigations. From the fan's perspective, the best outcome would come from an economically competitive league structure that internalized the impact of each team's talent choices on the rest of the teams in the league. But such an outcome would still have higher talent levels in those locations willing to pay the most. This would be true of MLB just as it is with the higher density of upscale shopping in areas of higher income and population. But since the location of teams is not competitively determined, it is nearly certain that this definition of fan-preferred balance is not met by the current structure of MLB. And even under this fan-preferred balance is not met by the current structure of MLB. And even under this fan-centered view, outcomes would not be perfectly balanced with team winning the league title once every fifteen years.

Judging the level of competitive balance in MLB boils down to the same type of analysis in other forms of entertainment. Where are particular entertainment activities located and how much do people get? Is that distribution efficient? Is it fair? I think of opera. This art form/business is highly concentrated in large revenue areas and, although there are not opera leagues or championship competitions, the best performances are always in the largest of revenue centers. Is this a problem? For an opera lover like me, living in Pullman, Washington, there isn't enough opera and it typically is lower quality. While I may be able to convince my elected representatives that the distribution of opera is unfair, it isn't very likely that moving the Metropolitan Opera (house and all) to Pullman and subsidizing it at its premier quality level into perpetuity makes much sense from an efficiency standpoint. So, while there clearly is opera imbalance, it isn't really a problem.

IV. DEVICES TO ALTER THE LEVEL OF COMPETITIVE BALANCE

An inability to determine whether or not the level of MLB competitive balance is sufficient does not stop us from thinking about the source of imbalance and devices that will effectively alter balance. Two paths lie before us. Along one path, we can take the level of competitive balance as given and attempt to do something about the results we dislike. Along the other path, we'll find the root of the problem. Once found, we can think about how to end the problem, itself. This second path is saved for the next section. Here, as in the BRP 2000, let's take the level of balance as given and investigate ameliorative devices. It's easiest to follow the same order as the authors of the report.

1. Enhanced revenue sharing. MLB teams should share at least 40% and perhaps up to 50% of all net local revenues (local TV, sponsorship, and special stadium seating) after ballpark expenses under what is known as a straight pool plan. Essentially, at the limit, teams will contribute 50% of net local revenues and get back 1/

30 of the pool that is created. This requires an appropriate minimum club payroll. Otherwise, owners may just pocket the cross-subsidy and leave their teams at the same level of quality (the minimum is later specified at $40 million).

Evaluation: This type of sharing will alter competitive balance. Pooled sharing of this sort reduces the marginal value of talent to all teams, regardless of the chosen sharing percentage. But it reduces the value more for larger revenue market teams.

So, it will lead large revenue market teams to reduce spending on talent, freeing players to other teams at a lower price.

But some observers doubt how large the impact will be. Professor Andrew Zimbalist (Sports Business Journal, Aug. 7–13, p. 50) reports that each club currently contributed 17% of net local revenue to a pool shared equally by 28 teams (Tampa Bay and Arizona were excluded under the most recent expansion agreement). Zimbalist further reports that the Yankees' net contribution was about $18 million. The report suggests any increase in this activity, but the formula generates only about another $3 million from the Yankees. This seems a paltry sum if the aim is to have an meaningful redistribution to small market teams.

Further, the report ignores the impact on talent! While it is true that such a pooled sharing arrangement will lead large revenue market teams to reduce their talent choice, it also is true that the amount paid to players will fall. This is an important element in enhancing the ability of smaller revenue market teams. Thus, the gains in competitive balance will come at the expense of large revenue market teams and players. One would naturally suspect that the MLBPA would seek offsetting benefits in the rest of the competitive balance enhancement package before they would find such a mechanism acceptable.

2. Competitive balance tax. The current luxury tax threshold of about $84 million in payroll should be taxed at a higher, 50% rate.

Evaluation: A luxury tax on talent choices, like enhanced sharing of local revenues that are determined by the level of talent hired, will reduce the value of talent at the margin for large revenue market teams. This will lead them to spend less on talent, driving the price of talent down for the rest of the league. Since smaller revenue owners now face lower talent prices, they can buy more and enhance team quality improving league balance.

But currently, the tax rate is 34% on the top five payrolls on the amount above the same threshold. And increases in revenues appear to have offset the tax payments by these teams. Again, as revenues rise, even 50% may not be enough to reduce spending on talent. Dramatically higher marginal tax rates, and more brackets, may be required to bring about any meaningful reduction in talent choices.

And, once again, the impacts on players are ignored. Under the luxury tax, large revenue market teams hire less talent and payments to players fall. The MLBPA is unlikely to be enthusiastic about this outcome unless there are other offsetting elements in the overall compensation plan. Further, the current tax won't be in operation over the next couple of years under the collective bargaining agreement between the league and the MLBPA. Any imposition in the future requires agreement under the upcoming negotiations.

3. Unequal distribution of central fund revenues. Over and above the $13 million distributed in 1999, the Commissioner should spend the increment of central fund revenues where it will have its greatest competitive balance impacts. Especially, the commissioner should use the funds to get teams to a $40 million minimum.

Evaluation: This approach just takes a specified excess over $13 million per club and distributes it on a need-determined basis. The only way this can work is if there is an established and enforced minimum. Otherwise, owners will simply interpret this as a lump-sum transfer from richer to less rich teams. Other leagues have found this enforcement problem onerous and effectiveness varies. A novel approach would be to invent the equivalent of food stamps or vouchers that can only be redeemed by higher salary choices.

4/5. Draft reforms. MLB should conduct an annual draft of players not on a 40-man roster, which is designed to improve the least competitive clubs from the prior year. MLB also should extend worldwide draft to include international players, eliminate compensation picks, and encourage the NCAA to adopt the "no return" policy enforced in football and basketball. Finally, playoff winners should be kept out of the draft until the second round and tradable draft picks be allowed.

Evaluation: There is no reason to get into the details of items 4 and 5. There is nothing about the draft, in any shape or form it may take, that will impact the distribution of talent as long as player contracts can be traded or sold under the current system that restricts player movement in their first six years. Professor Simon Rottenberg's invariance principle is in operation here. For young players with restricted mobility, the only thing that the draft does is redistribute money from players to owners and from large revenue market owners to smaller revenue market owners (and from college players to their athletic departments, in the case of imposing a "no return" policy in baseball). The changes in items 4 and 5 simply alter the level of the redistribution from richer owners to less well-off owners. But nothing will happen to competitive balance. James Quirk and I clearly demonstrated this in our paper on cross-subsidization in pro sports in the Journal of Economic Literature.

6. Franchise relocation. Franchise relocation should be an available tool to address the competitive issues facing the game. Clubs that have little likelihood of securing a new ballpark or undertaking other revenue enhancing activities should have the option to relocate if better markets can be identified.

Evaluation: This idea rests on the supposition that the revenue enhancements that come from new stadiums, lease arrangements, and sponsorships actually are spent on enhancing the quality of players on a team. After all, that is the only way that competitive balance, as opposed to wealth balance, will be enhanced. Typically, it is true that attendance, stadium revenues, and winning percent increase with a new stadium. But this is not a panacea since there are notable exceptions.

And the same observation is true of the new revenues that come with a team move. Competitive balance will only be enhanced if the new revenues actually are spent to enhance team quality. This will only occur if franchise relocation is into larger revenue markets. Often, this is precisely what occurs but there are exceptions as well. In the case of the exceptions, the revenue enhancements simply end up to be personal wealth enhancements for team owners.

The BRP 2000 notes that the team moves that actually would enhance competitive balance would be into currently large revenue markets. But this seems extremely unlikely to actually occur. For one thing, MLB's past practice has been to expand into the largest revenue markets, rather than moving teams to them. This makes perfectly good business sense since expansion fees are large and shared by existing league members. Why let Montreal move to New York when an expansion team would pay hundreds of millions of dollars for the privilege? In addition, while no team in MLB has moved since the last version of the Washington Senators packed their bags and headed for Texas to play as the Rangers beginning in the 1972 season, almost all MLB teams have successfully threatened to move to an open larger revenue market location. There is value to league members of open areas.

Revenues might be enhanced by new rivalries, as hoped in the BRP 2000 but that appears to be a risk that current large revenue market occupants don't wish to run. And MLB's own rules appear to have members over their own barrel. It is unlikely that MLB will allow such moves on its own. As professor Henry Aaron of the Brookings Institute noted in the earlier report on the status of baseball in 1992, one of MLB's major hurdles is its own decision making process (Supplemental Statement, Report of Baseball Study Committee, Dec. 3, 1992, p. 10):

> The industry of baseball is in political chaos, bereft of any governing mechanism by which clubs can agree to share revenues among themselves in a fashion that will permit all clubs both to compete equally on the field and to have an equal chance to make positive operating revenues. No such concerns arise in most other industries where increased market share goes to the strongest companies. In baseball, however, more "companies" in more cities make a stronger industry able to bring the pleasures of baseball to more fans. Thus, a governance structure of professional baseball clubs that is incapable of enforcing greater revenue sharing is the problem. Unless that problem is addressed and solved, labor management peace will never come to baseball.

7. Contraction. If the recommendations outlined in this report are implemented, there should be no immediate need for contraction.

Evaluation: This simply states the obvious. And, of course, contractions would indeed enhance competitive balance. Raising some measure of balance by chopping off the bottom end is a simple matter of arithmetic.

But it is interesting that anyone would even consider such an option. The reasons against such a choice are all economic ones. First, think of the basic franchise agreement. If a team is failing, they will simply forfeit their franchise. No action is required by MLB. For MLB to consider buying out a franchise, it would have to be the case that the team is, on net, costly to the league. This would only be true if there were a better location for the team, agreeable to the league, but the owner refuses to move. Only under very peculiar circumstances could this be true, such as an owner willing to take even larger losses than they must endure because they are tied to a location due to other interests. Another example would be a team that is economically viable, given its market, but the rest of the teams can't cover expenses by playing there. This also seems unlikely.

And in the evaluation of teams that appear to be nonviable, extreme caution must be exercised. For example, the report notes that only a few teams earned profits in recent seasons. But the MLBPA and other observers always have been skeptical of such claims. This skepticism follows from (1) the well-known sports accounting quirks that make teams appear to be losing money when the actual value of holding teams is in the millions of dollars and (2) sale values that increase over time at least as well as diversified portfolio of common stocks.

And there is the additional issue that owning an asset that loses money on its own balance sheet does not mean that asset should be cut loose. Owning a team feeds into owners' other earning activities and, as long as team ownership is the most valuable way of contributing in that fashion, it will be held even if it shows a loss to the owner on its individual balance sheet.

8. Game Development—Domestic and International. An adequate talent base must continue to be nurtured and so must the popularity of the game among fans. Grassroots programs aimed at youth participation. Youth that plays turns into tomorrow's talent and fans. Especially, international events should be sponsored.

Evaluation: This simply sounds like good marketing strategy to me. But I fail to see how it will have anything to do with competitive balance unless the result of these developmental activities come home to roost in increases in revenues for currently small revenue market teams. But, since none of that appears to be tied to the talent choices of current teams, I don't see how league-wide developmental strategies will enhance balance.

All in all, the report's eight-item plan to treat the symptoms of revenue imbalance is far from foolproof. Two devices will have no impact whatsoever (draft alterations and game development). And the implementation and impacts of the rest are problematic. The most likely to work are enhanced net local revenue sharing and the luxury tax. But appropriate levels must be chosen and there are collective bargaining issues. Contraction will work, but there doesn't seem to be any economic rhyme or reason to it. Unequal central fund distributions require policing of minimum salary expenditures by teams that has proven difficult in other leagues. Relocation supposes that new revenues actually will be spent on team quality. Sometimes that will be true, but not always. And nowhere to be seen is a discussion of the impacts on players. In every case, except unequal central fund distributions, franchise relocation, and game development, the impacts are negative on player earnings.

V. THE UNDERLYING CAUSE OF COMPETITIVE IMBALANCE

The preceding section covered mechanisms to fix the symptom of an underlying problem. Revenues are unbalanced in MLB because exclusive territories are protected for individual teams. Once territories are determined and distributed by a sports league, any difference between their revenue potential is institutionalized. New York has greater revenue potential than Montreal because it simply is a market with more fans willing to pay more than in Montreal. Furthermore, the location of franchises is managed in a way different than a more economically competitive result would yield. Since there are multiple cities bidding for any expansion franchise, and multiple cities interested in any franchise move, it is clear that the number of teams is smaller than competition would dictate. In this way, the value to the current league members is kept higher than the competitive level. And existing members capture the potential increase in the value of the league rather than by entrants who would compete the level of those returns down for current owners.

This suggests that a dose of economic competition stands a better than decent chance of enhancing competitive balance in MLB. This is one of the themes in my recent book with James Quirk, Hardball: The Abuse of Power in Pro Team Sports. The idea is not ours alone. It first appeared in earlier Hearings testimony by Ira Horowitz and Roger Noll. And Stephen Ross nurtured the idea in later work.

Suppose MLB was simply broken-up into two competing leagues. The American and National Leagues in baseball would be economically competitive if they were not under unified management by MLB. Indeed, prior to 1901, the two were, by and large, economic competitors. And the following could be expected (indeed, the history leading up to the joining of the AL and NL in 1901 bears this forecast out). Wherever there is an economically viable franchise location, one or the other of the independent baseball leagues would put a team there. This means that larger revenue markets, capable of sustaining more teams than the current MLB amount, would have more teams. The revenues of existing teams in that area would be reduced through competition by entering teams from their own or the other league. Unlike the contraction idea, which enhances balance by killing economically viable (and well-loved, but under-loved) teams, a competition approach would reduce revenue disparity by distributing the fruits of previous league power over location among more teams.

The break-up approach has a special virtue. It is an expensive proposition for any new, competing league to generate fan loyalty and staying power. Owners who undertook such an investment did so expecting some sort of long-term return. Overzealous antitrust enforcement would kill that return and, along with it, changes for the survival of the two competitive leagues. but this type of break-up of MLB would allow the resulting, competing, leagues to retain the fan loyalty and media ties they already have built over so many years. The AL and NL already are "major" in every sense of the word. And they wouldn't lose the fan brand name identification that they have cultivated over the years. However, one would expect that expenditures aimed at maintaining this type of loyalty would fall over time since the return to such investments would be falling under a competitive structure.

A final note of caution is suggested concerning a break up of MLB, given past outcomes concerning competing leagues in MLB. One wouldn't expect the two rival leagues to last without continued monitoring and a willingness to intervene. In every other case where rival leagues existed, the eventual result was merger or absorption by MLB. Enforcement of a break-up approach, under existing antitrust laws, would be required for competition to flourish. Antitrust enforcement would have to preclude any future move by the two leagues to "reach a competitive agreement" or merge.

Of course, any change away from current MLB structure will impact the welfare of owners, players, and fans. Owners and players could be characterized as the losers, since their economic welfare will fall. But, after all, their current welfare is founded on restrictions that reduce the enjoyment of fans. Overall, fans will be winners since there will be more, and more balanced, baseball to enjoy at lower prices.

In addition, taxpayers should win since subsidies would be reduced. Any team that tries to extract a larger subsidy will face competition from teams in the other league. If they threaten to leave, and the location is viable, local taxpayers and their representatives would know that another team is available to take its place. But some fans, at locations with marginal teams, probably will suffer. If their location is viable, they eventually will have a major league team. But in the scramble by existing teams in the two leagues to capture possibly higher valued locations, some of the lower revenue locations might see their team leave for greener pastures. But, again, if the location is economically viable, a team will eventually locate there.

One of the usual questions posed at this point is, "What will be the quality of competition on the field under increased economic competition?" Again, Professor Rottenberg's invariance principle suggests that quality will stay at its current level. After all, all of the earnings by owners and players that would be reduced were over and above the competitive rate. Since the changes projected here would occur league-wide, owners and players would face diminished opportunities wherever they turned in their sport. And their non-sport alternatives has not gotten any better. Wouldn't today's players play for less rather than leave their sport altogether? So, the level of competition under an economically competitive alteration, wouldn't be expected to decline.

VI. SUMMARY

I have attempted to examine the relationship between revenue imbalance and competitive balance in MLB. Then, just taking the revenue imbalance outcome as given, a variety of devices aimed at altering the after the fact competitive balance outcome were evaluated. Finally, going straight to the root cause of revenue imbalance, a more dramatic and intrusive approach is suggested.

Revenue disparity is a roller coaster ride through the 1990s with historically very unbalanced revenue in the middle of the decade. Compared to the NFL, MLB revenues are dramatically unbalanced, indicating that there are lessons in the institutional structure of other leagues if such imbalance in MLB is a problem. Turning to the outcome on the field, the balance of play during the season has improved steadily over the past forty years. The decade of the 1990s was more balanced, on average, on the field than any of the preceding three decades. If the just completed 2000 season is any indicator, the trend continues in the AL, but less so in the NL. And a detailed look at the 1990s shows that even though revenues became more balanced at the end of the decade, balance on the field in terms of winning percents has gone the other direction. Recent playoff outcomes continue the typical outcome in MLB. Large revenue market teams always have dominated the playoffs and World Series and they continue to do so. But it isn't clear that playoff dominance has worsened in the 1990s.

All in all, devices aimed at treating the symptoms of revenue imbalance are a mixed bag. Two will have no impact whatsoever (draft alternations and game development). And the implementation and impacts of the rest are problematic. The most likely to work are enhanced net local revenue sharing and the luxury tax. But appropriate levels must be chosen and there are collective bargaining obstacles. Contraction will work, but there doesn't seem to be any economic rhyme or reason to it. Unequal central fund distributions require policing of minimum salary expenditures by teams that has proven difficult in other leagues. Relocation supposes that new revenues actually will be spent on team quality. Sometimes that will be true, but not always. And nowhere to be seen is a discussion of the impacts on players. In every case, except unequal central fund distributions, franchise relocation, and game development, the impacts are negative on player earnings.

Breaking up MLB into two, economically competitive leagues will unleash the forces of competition upon the current competitive balance outcome. The expected outcome is an increase in the number of teams into all economically viable locations. In the case of megalopolis markets, more teams will be there competitively than currently. This reduces imbalance at the top end of revenues by spreading returns in excess of the competitive rate over more teams. The approach has the special virtue of allowing the resulting, competing, leagues to retain the fan loyalty and media ties they already have built over so many years. They wouldn't lose their fan brand name identification. But the cost of these gains in competitive balance would be eternal vigilance and a willingness to intervene in the future. The propensity of rival baseball leagues has always been to reform into a single, centrally managed league. And that type of behavior would have to be monitored constantly by antitrust authorities.

TABLE 1.—GINI INDICES, MLB REVENUES, VARIOUS YEARS

Year	MLB		AL		NL	
	FW/H	BRP	FW/H	BRP	FW/H	BRP
1950	.210	....	.280	....	.106	....
1952	.224	....	.221	....	.196	....
1953	.231	....	.249	....	.195	....
1954	.193	....	.206	....	.123	....
1955	.190	....	.161	....	.188	....
1956	.166	....	.174	....	.147	....
1950s Ave	.202	....	.215	....	.159	....
1980	.212	....	.218	....	.195	....
1982	.191	....	.187	....	.184	....
1984	.149	....	.146	....	.148	....
1980s Ave	.184	....	.184	....	.176	....
1990	.158	....	.168	....	.137	....
1991	.154	....	.151	....	.141	....
1992	.149	....	.152	....	.119	....
1993	.140	....	.147	....	.128	....
1994	.161	....	.176	....	.140	....
1995	.186	.213	.195	.209	.168	.206
1996	.193	.168	.220	.181	.153	.147
1997	.201	.182	.222	.199	.170	.156
1998	....	.180	....	.204	....	.152
1999	....	.176	....	.192	....	.156
1990s Ave	.168	.184	.179	.197	.144	.163

Notes: FW/H = Financial World-Forbes/Hearings data; BRP = Blue Ribbon Panel Report, 2000.

TABLE 2.—GINI INDICES, MLB AND OTHER PRO SPORTS LEAGUES, VARIOUS YEARS

Year	MLB		NFL	NHL	NBA	MLB:NFL
	FW/H	BRP	FW	FW	FW	
1990	.158	....	.047	.125	.195	3.4
1991	.154	....	.051	.119	.139	3.0
1992	.149	....	.037	.162	.151	4.0
1993	.140	....	.054	.184	.158	2.6
1994	.161	....	.061	.197	.135	2.6
1995	.186	.213	.077	.198	.137	2.8

TABLE 2.—GINI INDICES, MLB AND OTHER PRO SPORTS LEAGUES, VARIOUS YEARS—Continued

Year	MLB		NFL	NHL	NBA	MLB:NFL
	FW/H	BRP	FW	FW	FW	
1996	.193	.168	.059	.181	.157	3.3
1997	.201	.182	.067	.156	.172	3.0
1998	....	.180	....	....	....	....
1999	....	.176	....	....	....	....
1990s Ave	.168	.184	.057	.165	.156	3.1

Notes: See last table. MLB:NFL evaluated at the largest MLB result between FW/H and BRP.

TABLE 3.—THE BEHAVIOR OF THE SD OF WINNING PERCENT, 1960–2000, BY DECADE

	1960–69	1970–79	1980–89	1990–99	2000
AL:					
Min	0.054	0.045	0.055	0.029	....
Max	0.101	0.099	0.080	0.083	....
Ave	0.079	0.077	0.069	0.064	0.054
Median	0.085	0.078	0.071	0.063	....
Ave/Ideal	2.03	1.97	1.77	1.63	1.38
NL:					
Min	0.047	0.061	0.045	0.031	....
Max	0.124	0.086	0.087	0.093	....
Ave	0.086	0.072	0.066	0.065	0.069
Median	0.087	0.073	0.062	0.061	....
Ave/Ideal	2.21	1.85	1.70	1.67	1.78

TABLE 4.—THE BEHAVIOR OF THE SD OF WINNING PERCENT, 1990–1999

Year	AL	NL
1990	0.057	0.057
1991	0.061	0.061
1992	0.063	0.066
1993	0.055	0.093
1994	0.029	0.031
1995	0.083	0.060
1996	0.069	0.056
1997	0.062	0.059
1998	0.081	0.088
1999	0.076	0.079
Ave.	0.064	0.065

TABLE 5.—LEAGUE TITLES IN MLB, 1900–1999

	League Titles	Years	Years/Title
AL:			
Yankees	37	98	2.6
Oakland Athletics	7	33	4.7
Phil. Athletics	9	54	5.9
Orioles	5	47	7.8
Red Sox	10	100	10.0
NL:			
NY Giants	15	57	3.8
LA Dodgers	9	43	4.8
Bkln. Dodgers	9	57	6.2
Cardinals	15	100	6.7
Mil. Braves	2	15	6.7
Atl. Braves	5	35	7.0
Mets	4	39	9.8
Cubs	10	100	10.0
Reds	10	100	10.0

TABLE 6.—LEAGUE CHAMPIONS, 1990–2000

Year	AL Winner	AL Loser	NL Winner	NL Loser
1990	Oakland	Boston	Cincinnati [1]	Pittsburgh
1991	Minnesota [1]	Toronto	Atlanta	Pittsburgh
1992	Toronto [1]	Oakland	Atlanta	Pittsburgh
1993	Toronto [1]	Chicago	Philadelphia	Atlanta
1994	(2)	(2)	(2)	(2)
1995	Cleveland	Seattle	Atlanta [1]	Cincinnati
1996	New York [1]	Baltimore	Atlanta	St. Louis
1997	Cleveland	Baltimore	Florida [1]	Atlanta
1998	New York [1]	Cleveland	San Diego	Atlanta
1999	New York [1]	Boston	Atlanta	New York
2000	New York [1]	Seattle	New York	St. Louis

[1] Eventual World Champion.
[2] Playoffs and World Series lost during strike year.

Senator DEWINE. Thank you very much.
Mr. Will.

STATEMENT OF GEORGE F. WILL

Mr. WILL. Mr. Chairman, when, 50 years ago in Champaign, IL, I played little league baseball for the Mittendorf Funeral Home Panthers, I batted ninth. So I am used to following the heavy hitters, and I am content to let Commissioner Selig and Senator Mitchell speak to the particulars.

I want to address, as my testimony serendipitously does, the three salient questions you asked this morning: what do you say to the Yankees, what do you say to the players, and why isn't the competitive balance tax the equivalent of a salary cap.

The path to competitive balance, Mr. Chairman, involves, among other things, recognizing that the term "local revenues" is a misnomer. No revenues in baseball result exclusively from the sale of a local product. It takes two teams to have a game. Any team that doubts that should try to play 162 intra-squad games and see what their attendance is. Substantially more, therefore, of the industry's revenues should be just that; they should be treated as the industry's revenues.

Furthermore, as Senator Mitchell said, a sports league is a mechanism for producing reasonably equal competitors. It is a contrivance. It is not like 30 widget companies competing. This sounds, I know, to some people like socialism.

Senator DEWINE. That would be a shock.

Mr. WILL. Well, Rick Levin exclaimed one day in our deliberations as I was applying compassionate conservatism to the small-market teams of Major League Baseball that he was going back to Yale to say that he was to the right of me on this issue. Perhaps he is.

I should also add that one of baseball's strengths—its long tradition running deep into 19th century America—means that it also has a problem; that is, as you mentioned earlier, this ante-dates the advent of broadcasting which has changed everything.

Now, some people, Mr. Chairman, say baseball can solve its problems simply by increasing its revenues. Those people misunderstand the perverse dynamic of baseball's prosperity. Baseball's gross revenues almost doubled between 1995 and 1999. But under the game's current economic model, this prosperity exacerbated competitive balance. In 1995, top-quartile teams spent about twice as much as bottom-quartile teams. In 1999, they spent 3 times as much.

Some people say the appreciation of franchise values confirms baseball's fundamental economic health. They misunderstand this: of the 13 teams sold in the last 20 years, the appreciation of five was considerably less than their cumulative operating losses. The appreciation of four represented only a modest return, less than the normal rate of return on invested capital. And the substantial appreciation of the four other teams was caused by actual or planned new ballparks.

Commissioner Selig says that he "cannot state with certainty that the Panel's recommendations would solve our competitive balance problems." The competitive rate for the competitive balance tax on payroll spending above $84 million may be insufficient to reduce the behavioral change baseball needs. Furthermore, for reasons arising from the rethinking of the very concept of local revenues, perhaps 50 percent of those revenues should be shared.

Let me echo something that Bob Costas said a moment ago. During the 1994 strike, my sympathies, strongly written, were with the players, as they were then lead by my friend—and he is a friend—Don Fehr. So I hope for a sympathetic hearing for the following fact which responds to something Mr. Fort has just said.

The 50-percent competitive balance tax, far from being equivalent to a salary cap, provides only a porous ceiling on payrolls, whereas the floor is firm because of the powerful incentive—access to unequal distribution's from the commissioner's pool—to meet the payroll minimum of $40 million, a substantial increase.

Professor Fort says he knows that our recommendations will have a negative impact on player compensation. I don't see how he can know that. Our Panel is agnostic on that question. The Panel is agnostic regarding the distribution effect, but it seems to me likely that under the Panel's recommendations most players would be in a better financial, as well as competitive position.

Baseball, Mr. Chairman, is not Bangladesh; it is not poor. It can get well by deciding to get well, and the first decision has to be made among the owners. Commissioner Selig mentioned a moment ago the number of 30-to-nothing votes he has received. He may have to have some less than unanimous votes in settling with the owners. He may have some group of owners who are going to have to out-vote the other group. That responds, I think, to your question repeated this morning about how you get there. You get there by voting, not, of course, on a butterfly ballot.

That concludes my remarks.

[The prepared statement of Mr. Will follows:]

PREPARED STATEMENT OF GEORGE F. WILL

Mr. Chairman. when, fifty years ago in Champaign, Illinois, I played Little League baseball for the Mittendorf Funeral Home Panthers, I batted, as I recall, ninth. I am used to coming to the plate after the heavy hitters.

Commissioner Selig and Senator Mitchell, my colleague on the Blue Ribbon Panel, have presented the salient facts about the effects of revenue disparities on competitive balance, and the Panel's recommendations for a reformed economic model for baseball. So I will address some of the Panel's premises.

Competitive balance will exist only when every well-run team has a regularly recurring reasonable hope of reaching postseason play. The path to this involves, among other things, recognizing that the term "local revenues" is a misnomer. No revenues result exclusively for the sale of a local product. It takes two teams to have a game. Any team that doubts that it is selling not just, say, Yankees' baseball but major league baseball should imagine that its attendance would be for 162 intrasquad games. Substantially more of the industry's revenues should be as just that—the industry's revenues.

A sports league is a mechanism for producing reasonably equal competitors. If 30 widget companies are competing, it is reasonable for each to hope to achieve lasting dominance, and to hope to reduce many competitors to anemia, even extinction. But 30 baseball teams, associated for the purpose of producing, day in and day out, balanced competition, must evolve mechanisms for insuring 30 healthy competitors.

One of baseball's strengths—its long tradition, running deep into 19th century America—has a debilitating cost. Baseballs anachronistic economic model predates the formation of the modern market for professional sports; it predates, to take just one example, the advent of broadcasting.

Some people say baseball can solve its problems simply by increasing its revenues. Those people misunderstand the perverse dynamic of baseball's prosperity. Baseball's gross revenues almost doubled between 1995 and 1999. But under the game's current economic arrangements, this prosperity exacerbated competitive imbalance: In 1995 top quartile teams spent about twice as much as bottom quartile teams on players; in 1999 they spent about three times as much.

Some people say the appreciation of franchise values confirms baseball's economic health. They misunderstand this: Of the 13 teams sold in the past 20 years, the appreciation of five was considerably less than their cumulative operating losses. The appreciation of four represented only a modest return—less than the normal rate-for invested capital. The substantial appreciation of the four other teams was caused by actual or planned new ballparks.

Commissioner Selig says he "cannot state with certainty that the Panel's recommendations would solve our competitive balance problem." The 50 percent rate for the competitive balance tax on payrolls spending above $84 million may be insufficient to produce the behavioral change baseball needs. Furthermore, for reasons arising from the re-thinking of the very concept of so-called "local revenues," perhaps 50 percent of those revenues should be shared.

However, the Panel was not unmindful of feasibility considerations arising from the fact that some changes recommended are collective bargaining issues. Just as our report challenges owners to think anew, so, too, does it challenge the Players Association to avoid sterile strategies and stereotypes. During the 1994 strike my sympathies, strongly written, were with the players as led by my friend Don Fehr, so I hope for a sympathetic hearing in calling the players' attention to this fact:

The 50 percent competitive balance tax, far from being equivalent to a salary cap, provides only a porous ceiling on payrolls, whereas the floor is firm, because of the powerful incentive (access to unequal distributions from the "commissioner's pool") to meet the payroll minimum of $40 million. Certainly the Panel believes its recommendations would result in redistribution of revenues. However, the Panel is agnostic regarding the effect on total spending on players. It seems plausible that under the Panel's recommendations, most players would be in a better financial as well as competitive position.

Mr. Chairman, once when manager Casey Stengel reached the mound to remove a struggling pitcher, the pitcher said, "I'm not tired." To which Stengel replied, "Well, I'm tired of you."

Fans are tired of competitive imbalance. The owners say they are. So do the players, competitors all: Earlier this year a poll of players by Baseball Weekly revealed they ranked competitive balance at the top of their list of things needing fixing.

The players will, I hope, see how their material interests can be served by the Panel's recommendations. And the owners will, I hope, understand that their response to the Panel's recommendations will determine, for a long time, the credibility of their chronic complaints about baseball's condition.

Baseball is not Bangladesh. It is not poverty-stricken. And it can get well by deciding to get well. The deciding must be done by both the owners and players.

Senator DEWINE. Mr. Will, thank you very much.

Mr. Stadulis, thank you very much for joining us. We appreciate it.

STATEMENT OF FRANK STADULIS

Mr. STADULIS. Thank you for inviting UsFANS to participate. We are proud to be here with the commissioner and the distinguished panelists.

I am President of United Sports Fans of America. We are sort of a new anomaly on the sports scene. We represent about half a million sports fans across the country. We are not a militant group. Quite simply, what we try and do is put a business head on the fan community at large and start to give it some leverage in situations such as these.

We have a fairly robust media capability. We have a Web site called UsFANS.com, national radio show called UsFANS Sports Fire. We will be inaugurating a television show in the first quarter. The only difference is we have got the lunatics running the insane asylum. This is run by the fans, for fans. We invite people from the industry in on some of these seemingly intractable problems, and we try and really run these things to ground from a fan's perspective and feed that back into the infrastructure, with the hope of making change.

We are a for-profit business, and please don't be aghast when I tell you that. My God, a sports fan association that makes money. There is a graveyard littered with sports fans associations because the business model was fundamental defective. These are powerful organizations and associations that we are dealing with. We need to create a wealth center for fans so that, in fact, they can have representation.

On specific issues, we do attempt to get the broadest possible input from fans. Some of our surveys are statistically valid, some are not. I would urge you to note that the date points I will give you today are not statistically valid, but we think inferentially they are very important.

Some of the kinds of issues we have been active in are things like blackouts, lockouts, violence in sports. And in baseball, we, had worked with Earl Blumenauer's office on a piece of legislation called H.R. 590, Give the Fans a Chance Act, which now has evolved into H.R. 534. The issue there is to try and give communities, where they can give a competitive bid, to have the opportunity to own their own hometown team.

In the past year, increasingly we have become concerned about the major problems confronting baseball from a fan's point of view. As you know, this has been the focus of the commissioner's Blue Ribbon report. Fans have voiced their concerns anecdotally about the higher-payroll teams always being the ones that seem to get a shot at grabbing the golden ring.

Our analysis, by the way, separately and distinctly, shows that there are two major remedial things—effective forms of revenue-sharing among all teams and some sort of salary restraint, whether it is in the form of a luxury tax or a salary cap. We don't pretend to be experts in baseball finance or economics. All we can kind of tell you is what we perceive needs to be fixed as lay people.

Our analysis is not unique, but in summary I would just like to share with you a couple of survey questions that we did run. The first survey was answered by approximately 3,000 fans. The first question was, do you support a movement that would require Major

League Baseball and its Players Association to take whatever steps are necessary to restore competitive balance or parity to the game? Yes, 94 percent; no, 6 percent. Second: Do you support the implementation of salary caps and equitable revenue-sharing throughout the league? Yes, 94 percent; no, 7 percent. That particular survey was run on UsFANS.com.

We ran a similar survey on MSNBC.com. That was, I think, somewhere around 4,800 respondents. The questions were not identical, but in terms of the result it was almost identical. There was very strong support on behalf of fans for the leagues and the Player Association to fundamentally attack these issues.

UsFANS considers 70 percent of anything a mandate to act, and we believe we now have overwhelming fan support. We believe that Major League Baseball, the Players Association, along with us having input representing the fans, will be a key ingredient in trying to address this seemingly intractable problem that certainly has plagued the game.

We really do believe that the notion of the $84 million cap, or let's say luxury tax threshold, might be supported. But what we have to recall is who is going to pay for the people that do want to spend over, and it is the fan. And we do believe that perhaps something more drastic has to be done in terms of salaries. A case in point: today, as you may know, the Colorado Rockies are interviewing Alex Rodriguez and Rodney Hampton. Were they to recruit those two fine players, their salary contribution immediately would be $34 or $35 million.

And the problem is simply this from a fan's perspective: you have this large vat, and that vat is money, OK? And we are trying to fill the vat with new revenue streams and revenue-sharing and all kinds of things, which we are supportive of. But on the other hand, there is a valve at the bottom and somebody is turning that valve over and the water is leaking out as fast or faster than the new programs can put the revenue in. And guess where the source of the revenue comes from? Us, as fans. I mean, after all, we do pay for this whole party.

Having said all that, we are absolutely excited about the Blue Ribbon report. We think that that and Bob Costas' analysis are all fundamentally on track. The problem with this thing, as we all know, is the devil is in the details. It is going to be in the implementation, and we just don't think we can skirt the issue of harder reality regarding the Major League Baseball Players Association and what needs to be done with salaries to provide a corrective balance to this generic problem.

Thank you.

[The prepared statement of Mr. Stadulis follows:]

PREPARED STATEMENT OF FRANK STADULIS

I am Frank Stadulis, President and CEO of the United Sports Fans of America (UsFANS). I appreciate the opportunity to appear before the Subcommittee and to represent our membership and others who have responded to our mission.

UsFANS is an association of sports fans, incorporated in 1996, dedicated to improving the operation and delivery of sports, and to giving fans an effective voice at all levels of the sports establishment. UsFANS currently has over a half million members, and is growing. We communicate with our members and other fans through a variety of media, including our Internet sites, our SportsFire radio programs, and live events; we plan to introduce our SportsFire television show early next year.

We are a for-profit, proactive organization, that gathers input from fans through all of our media. In particular, our principal Internet site invites responses to our articles, and uses chat rooms and message boards as well as polls and surveys to solicit the views of our members and other site visitors. On specific issues, we will get the broadest possible input to determine whether we should take action. We consider it a mandate to act if we have a 70 percent vote in favor of a particular position.

Over the past year we have been concerned with the problems confronting major league baseball, which have been the focus of the Commissioner's Blue Ribbon Panel report. Well before the report was issued our own concerns were with the problems of league dominance by a handful of teams, largely in the biggest media markets and all with the highest payrolls, and the skyrocketing salaries underlying this situation.

Our analysis indicated that two principal remedial measures were required: one, a far more effective form of revenue sharing among all teams, and two, some form of salary restraint or limitation.

The problem was clear: two-thirds of the teams—and their fans—were destined to disappointment before the season even began, because the odds against their making the playoff—and clearly against succeeding in the playoffs—were prohibitive. And since fans deserve, for their loyalty, and expect, for their economic support, a competitive home town team, the threat of a long-term loss of fan support for these teams, and thus for the League as a whole, is very real.

Our analysis was not unique, but we considered what role would be appropriate for UsFANS in seeking to use our national fan base to help deal with baseball's—and the fans—problems. We realized that we are in a unique position to determine and focus fan views, and to support the MLB in its efforts to generate a more competitive environment for all teams. The owners had taken the major step of giving the Commissioner unprecedented powers to cure the problems; but there was little doubt that exercise of these powers would face serious resistance from some owners—those with the deepest pockets, richest markets, and winningest teams—on the one hand, and from some players and their agents, and possibly the MLB Players Association, on the other.

We decided to pose to our membership and other fans visiting our website, clearly had directly, the questions we deemed critical, in the form of the UsFANS "Give All Baseball Teams A Chance Petition" (copy attached as Exhibit A). The Petition described the problem, then set forth two questions to be answered yes or no. A total of 2,894 fans responded as indicated below:

First: Do you support a movement that would require Major League Baseball and its Players' Association to take whatever steps are necessary to restoring competitive balance, or parity, to the game? Yes=94 percent No=6 percent.

Second: Do you support the implementation of salary caps and equitable revenue sharing throughout the league? Yes=93 percent No=7 percent.

As stated earlier, we consider 70 percent a mandate to act; here there is overwhelming fan support for required changes which we believe could be translated into action through a continuing and cooperative effort between Major League Baseball, its Players Association and UsFANS. We believe fan involvement can be the catalyst to taking the steps needed for baseball's continued success and long-term survival.

Over the past year, UsFANS has analyzed the numbers and the situation and reached the same essential conclusions as the Blue Ribbon Panel. Our editorial writers have discussed the problems, and possible (and needed) solutions, frequently. We also have received anecdotal evidence of the need for action through the submissions of fans, responding to articles and the Petition. One example of the mood and intensity of fan concern is the following:

> There are two problems in baseball. Money is one of them. The reason I stopped watched baseball was Shawn Green and his selfish attitude, not only with this contract demand but also how he treated the Blue Jays. What I can't figure out is how do you expect [people] to watch with that kind of attitude and why would you watch when teams with low payrolls have no chance of competing. To me I have no interest because come Fall you know the Yankees, Red Sox, Cards, Mets, Braves, Diamondbacks, Rangers, and Indians are most likely to be there. If they're not a team with another high payroll will take their place. Then if a low payroll team has good players it will lose them to the big teams * * * (Posted by Sean O'Reilly on April 23, 2000).

Sean, writing in April, correctly predicted five of the playoff teams—the Indians just missed.

Today's sports enthusiasts, particularly family groups and kids, in ALL markets, not just New York and Atlanta, must be induced to become or remain fans for baseball's long-term survival. Baseball must create a next generation of fans, who also will require competitive teams and affordable access to the games. The passion and frustration of individual fan responses such as Sean's is telling, but perhaps even more so—and more threatening—is a growing apathy that says "we're beginning to just not care." It is the fans who buy (or don't) the tickets and advertised products that are the economic foundation of the league: their money ultimately pays for the salaries, the stadiums, the naming rights—and when necessary, the relocation costs—and their emotional attachment to the game and to their teams and heroes is what makes the industry succeed.

Exhibit A (Testimony of
Frank Stadulis)

GIVE ALL BASEBALL TEAMS A CHANCE PETITION

Do you support a movement that would require Major League Baseball and its Players' Association to establish whatever measures are necessary to restore competitive balance to the game?

Should the baseball owners and players' union agree to implement a salary cap system and more equitable revenue sharing?

Competitive balance is all but lost in the big leagues. Only a handful of teams each year have a realistic shot at winning the World Series. The gap between the "haves" and "have-nots" continues to widen:

- In 1999, all eight playoff teams ranked in the top 10 in players' salaries.
- The average players' salary has risen from $589,483 in 1990 to $1,567,873 in 1999.
- The New York Yankees' 1999 players salaries ($91.9 million) was more than the five bottom spending league teams - Florida, Montreal, Minnesota, Kansas City and Pittsburgh - combined ($85.7 million).

Unless drastic changes are made, baseball is in danger of pricing out the smaller market teams - in addition to pricing out the fans from attending games.

To ensure long-term prosperity, baseball's brass must create a system that rewards franchises for their baseball savvy instead of using huge sums of money to buy success on the field.

Please fill out the following petition and make your views count. UsFANS.com will present the results of this petition to Major League Baseball and Major League Baseball Players Association **officials at the All-Star Game in July. Stand up UsFANS and be heard!**

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Please note - all fields are required

First Name: arthur

Last Name: bernstein

Email: adbusfans@aol.com

State: Select A State

UsFANS.com Baseball Petition

Question 1

Do you support a movement that would require Major League Baseball and its Players' Association to take whatever steps are necessary to restoring competitive balance, or parity, to the game?

- Yes
- No

Question 2

Do you support the implementation of salary caps and equitable revenue sharing throughout the league?

- Yes
- No

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Senator DEWINE. Let me thank all our panel members. I will direct questions to different members, but, as I said, give each one an opportunity to respond even if the question has not been asked to you.

Mr. Costas, if your book had been written after the 2000 season instead of after the 1999 season, wouldn't it have been more difficult for you to make your case in regard to the problem that we have.

Mr. COSTAS. No, I don't think so. I guess you are referring to the success of the Oakland A's and of the Chicago White Sox.

Senator DEWINE. Correct.

Mr. COSTAS. Wait until Jason Giambi becomes a free agent in a year or so. See if he is still a member of the Oakland A's, and if he is still a member of the Oakland A's after they have made that investment at something approaching market value, see how much money they have left over to fill in around him with competitive players.

Take a look at a team that made the playoffs and actually took the Yankees farther in terms of games played than anyone else they faced. Seattle took them to six games, a competitive series in the LCS. But look at Seattle's situation; it is as instructive as any, maybe more instructive than the so-called small markets.

They have done just about everything you can do to max out revenues. They built a new ballpark with substantial input from public funds. They will draw more than three million fans to that ballpark for the foreseeable future. I assume that they have come close to maxing out their media revenues in a middle market. And over the last few years, they have had a forced trade of Randy Johnson. If you want to discount that and say that it pre-dates the opening of Safeco Field, fine. They have had a forced trade of Ken Griffey, Jr., and now they may lose Alex Rodriguez.

If they had been able to keep Griffey and Rodriquez at market value, you tell me, with a decent set-up man going for $4, $5 million a year, with a decent fourth outfielder running $2, $3 million a year, how they are going to fill in around Griffey and Rodriguez with a team that would keep them competitive over a sustained period of time.

I think sometimes the players don't realize that their arguments place them in a double bind. The players want market value, understandably so. Almost every one of them to a man says, I want to play for a contender and I want my team to do everything it can to fill in around me with players who will make this team a contender. In many markets, that simply is not possible as they come close to maxing out the available revenues.

I think that the Chicago White Sox are truly an anomaly because they are not in a small market, and I don't think the Chicago White Sox payroll will remain at anything like its present level in the next few years. And if you build in the short term by catching lightning in a bottle, as Oakland and Chicago did, with excellent management—if you build a contender in the short term, by definition, the performances of those players that made it possible increases their value to the point where if they become eligible for free agency or arbitration, you will have to significantly increase your payroll, so you will no longer be a small-payroll team, or you will be forced into economically-driven trades that will strip mine your roster.

Senator DEWINE. It seems to me that you could even make that same argument—and again I will put on my parochial Ohio hat, and I have talked a little bit about the Reds, a small-market team. It seems to me that you could foresee a situation where the Indians would eventually have the same problem in the sense that they are setting records. They sell season after season 81 games, totally sell out the ballpark. Their TV revenue ratings—I am not privy to what their dollars are.

Mr. COSTAS. They are among the highest local ratings for any sports anywhere in the country.

Senator DEWINE. Their ratings are just as high as you can get. At some point, I don't know how you get much higher as a percentage of the market.

Mr. COSTAS. Right.

Senator DEWINE. And so it seems to me that an argument can be made that at some point they do max out and they hit some sort of a, maybe not a ceiling, but at least a slowdown of the increase in revenue, whereas there may be other teams that they will be directly competitive against that, because of the size of the market, because of the local TV rights, may not ever hit a ceiling. They may just continue to go straight up.

So it seems to me that an example of a high-payroll team that we look at, and we look at the charts of the Indians, and a team that has been very successful, might even run into this same problem.

Mr. Will.

Mr. WILL. They have run into it. They can't keep Manny Ramirez, in all likelihood. If money is the deciding factor in Mike Mussina's case, the Yankees will get him. You mentioned the Oakland A's. Stairs is already gone and Valardi soon may be off that team. Last year, the White Sox had a payroll of $40 million. To keep that team together, Mr. Chairman, just to keep the same team under the arbitration mechanism and free agency, it will go over $50 million just 1 year later.

Senator DEWINE. And, again, your comment brings up, Mr. Will, another problem that fans have, and that is continuity. You know, each one of us as a fan from a parochial point of view wants to be able to follow players for some period of time. That is why I can recall a good part of the starting lineup of the Cincinnati Reds in 1955.

Very few believe that we should go back to the time when players didn't have more rights than they have today. That is not the issue. The issue is, is there a way to set the structure of baseball so that fathers and sons don't have a discussion like I had with my son, Mark, the other day. We just heard about a new trade and I said, well, why did they do that? And he looked at me like I was silly and said, well, dad, it is a payroll question, they have to deal with the payroll.

It used to be, when my dad and I talked about trades, it was one of us or maybe both of us lamenting the fact that the Reds had traded away someone whom we really liked and wanted to watch forever, or we argued that it was a good trade or it was a bad trade, but it was all on the merits. It wasn't dollars and cents. Not that dollars and cents are bad, but as a fan so much of what we are reading about is that. And as a fan, it sort of takes something away from the game.

Mr. WILL. Your son, who is wise beyond his years, will doubtless tell you——

Senator DEWINE. He is 13. He is doing pretty well. He is doing better than his dad.

Mr. WILL [continuing]. That even questions related to signability relating to the cost of bonuses now has turned the draft itself into a perverse mechanism. The amateur draft was supposed to be something that would allow the poorer finishing teams to draft first. Well, now, if you go down the list, they no longer draft the one, two, three, four, five, six Baseball America-ranked players. You will find the Pirates skipping over and drafting someone much farther down the list because they say we simply can't afford to use this mechanism ostensibly set up to help us.

Mr. COSTAS. Senator DeWine, a couple of reactions there. First, this is seldom remarked upon because understandably the focus is on the great disparities between the so-called large-market teams, who really should be referred to as large-revenue teams because sometimes it doesn't correspond directly to population, and medium-market and smaller-market teams.

But there is tremendous instability now in baseball even at the top. There was always movement, all of it instigated by management in the days prior to free agency through trades and releases. But now you see unprecedented movement of top-level players. I broadcast the All Star Game in July and was struck by how often I found myself saying he is a six-time all star with his fourth different team. You can no longer tell the all stars and the pennant contenders without a scorecard. And I think in the long term, that is not good for baseball.

Also, talking about teams maxing out their revenues, I think every team should do everything it can in terms of aggressive marketing and every other strategy to maximize its revenues. And there is nothing wrong with public-private partnerships to build new stadiums. If they are built in the right way, it can make sense economically, and these new ballparks, especially those with a retro feel, are appreciated by fans.

But, clearly, without some sort of economic reform, comprehensive revenue-sharing, and some sort of salary restraint, all this is going to do in the long term, after providing, as you noted earlier, perhaps a short-term fix for certain markets who got ahead of the curve in building a new ballpark—once all of this evens out, once all the new ballparks are built or all the franchises that are no longer viable in a given market can't get a new park or other economic factors come into play have moved to a new market—once that has all happened, absent significant economic reform within the game, the disparities will simply take hold at different levels. So instead of the disparity being 90 to 50, the disparity will be 140 to 70. The Players Association will be thrilled with that, but fans will not be thrilled because the outcome on the field will be the same.

When the Milwaukee Brewers say to their fans, help us build a new ballpark, it will help us compete, at that time it may have meant—I am making these figures up, but they will suffice for the purpose of the argument—that may have meant we will go from a payroll of $30 million to a payroll of $50 or $55 million. And it will, in fact, enable them to do that, but that will no longer be sufficient to compete.

Mr. STADULIS. Senator, you talked about the disillusionment of fans without being able to have the loyalty they used to have to their players. I just want to give you one anecdotal data point, if I may. I am going to protect the player's name because it is not relevant. This is from a fan: "There are two problems in baseball. Money is one of them. The reason I stopped watching baseball was a player and his selfish attitude, not only with his contract demand, but also how he treated his team, my team. What I can't figure out is how do you expect people to watch that kind of attitude, and why would you watch when teams with low payrolls have no chance of competing? To me, I have no interest because, come fall, you know the Yankees, Red Sox, Cards, Mets, Braves, Diamondbacks, Rangers, and Indians are most likely to be there. If they are not, a team with another high payroll will take their place. And then if a low-payroll team has good players, it will lose them to the big teams." Posted by Sean O'Reilly April 23 of this year. Sean wrote this back in April, correctly predicting five of the playoff teams. The Indians, as you know, just missed. My only point is the fans—and the commissioner mentioned this—the fans really do understand the dynamics of what the heck is going on here.

Mr. FORT. Senator, the discussion so far is predicated on the idea that there is a trend occurring here, and disparity in baseball. I would just like to point out that forecasting has been characterized as driving 60 miles an hour down a curvy road with nothing but a rear-view mirror. Right now, what we have is one, maybe two curves ahead of us that we are able to actually observe in baseball and the behavior of competitive balance.

One thing that is being ignored is that, through time, there have been cycles in the performance of teams. And if you think, as Commissioner Selig pointed out, good baseball and good baseball management starts with a team that may not be so great figures out how to make it great. But that has a cycle to it, and especially in free agent years where, once you build that team, it is especially difficult to hold on to it. Those cycles have been observed even in the 1980's and into the 1990's.

And so the question seems to me to be not one of is it time to save the patient before they are dead. It seems to me to be one of trying to make sure about the right prescription to make here. The patient may not be dead. The patient may not need drastic, dramatic, invasive surgery. It may simply need, like my doc does most of the time, to sit and wait for a few minutes while we see what the real problem is.

Senator DEWINE. So the premise that most of the witnesses have proceeded under today that this has been a problem, that we are now into a brand new era, that this era really kicked in heavily in the last 5, 7, 8 years, and that this is a trend that will not change—you reject that premise, basically?

Mr. FORT. I think we don't have enough information to know whether that premise is true or not. Commissioner Selig tells us that it was a different era. The reason that teams performed and generated dynasties in the past didn't have to do with money. But the hearings data early on in the Kefauver hearings and later point out that the Yankees had a four-to-one revenue advantage through those early years when their dynasty was occurring.

Senator DEWINE. Which early years were those? Were they in the 1920's, or which Yankees era?

Mr. FORT. I think in the 1950's were when most of the data were——

Senator DEWINE. So it is not good management, it is money? Or is it maybe both?

Mr. FORT. I think it may well have been that there has been a regime change. It could be good management, it could be money, and right now we are seeing things that historically are not unprecedented in the imbalance that I was able to find.

Senator DEWINE. We picked three charts. We could have picked any number of 30 or 40 charts. Not that charts show everything, but it seems to me these three charts are pretty stunning. And if the lines at least continue—I guess your argument is the lines won't continue, but if the lines continue, it seems to me it is just an absolutely unbelievable problem.

You look at the local broadcasting revenue and look at these figures, and these figures are already out of date and we didn't even bother to put the Yankees up there, who are involved in some negotiations that I am not quite sure I can yet figure out where those dollars are going to. All I know is it is an awful lot of money. Unbelievable disparity between teams that are in direct competition to the Milwaukee Brewers and Cincinnati Reds.

Mr. Costas, then Mr. Will.

Mr. FORT. Before you proceed, though, that misses the point that substantial portions of those are already shared. This is before they do their revenue-sharing which is already in place.

Senator DEWINE. Well, some of it is shared.

Mr. FORT. And the other part of it has to do with just looking at a more general way. If you always compare the end points, that makes a very dramatic case. But if you compare a more averaged sort of look at competitive balance in baseball, you don't get that startling picture at all. I am not arguing that it will or won't continue. In fact, the preface of my remark was that forecasting is an extremely difficult thing to do. There seems to be a lot on the line here for owners, for the league, and for fans.

Senator DEWINE. Let me just make a comment. As Senator Mitchell said, we rely on our efficient staff here. My staff tells me that the first chart closest to me, the total revenue gap between baseball's richest and poorest teams--that is after the sharing. That does take that into consideration, and you see where that line is going.

Mr. Costas, then Mr. Will.

Mr. COSTAS. I think the citing of Yankee dominance, Brooklyn Dodgers success in the 1950's or various cycles of competitive imbalance prior to the advent of free agency is an obvious red herring argument.

First of all, as Commissioner Selig and others have argued, there are persuasive arguments to be made that the factors that contributed to that were different. But even if that were not the case, simply citing an historical precedent for an objectionable condition is hardly an argument for the continuation of that condition under new circumstances.

The relevant information is what happened immediately after the Players Association achieved not only a victory for itself, but a victory for basic justice and fairness, and overturned the reserve clause and the players began to receive the kind of rewards they deserve and have the sort of freedoms within baseball's structure that they deserve and which should never be fundamentally altered.

In the late 1970's, throughout the 1980's and in the 1990's, did the Yankees and did the Dodgers and other large-market teams have their successes? Yes, they did. But during that period of time, the Kansas City Royals not only won a World Series, but they were consistent division winners and contenders.

The Pittsburgh Pirates at the beginning of the 1990's won three straight division titles when there were only two divisions, not three divisions and a wild card. So it was a more difficult achievement. The Montreal Expos, instead of simply populating the major leagues with their former players who are now other teams' all stars, actually were contenders in the early 1990's.

Your Cincinnati Reds won it all in 1990. Minnesota won the World Series in 1987 and 1991. The Oakland A's were the best team in baseball. They didn't catch lightning in a bottle and win a four-team mini division. They were the best team in baseball for a sustained period of time in the 1980's and 1990's.

That is the model, not some nostalgic good old days. The model is the recent past. And, clearly, although perhaps Mr. Fort is not convinced, I think we have more than enough evidence over the last 5, 6 years as to where it is, that a sea change took place in the early and mid-1990's, and where it is going. And if we fail to act, we—I don't have anything to do with it; I am just observing. But if those who can do something about it fail to act, they will only see the problem grow not only more severe, but perhaps more difficult to ultimately remedy.

Senator DEWINE. And the sea change again was what? What happened at that period of time a few years ago?

Mr. COSTAS. Explosion in cable revenues, explosion in stadium revenues. Even if everybody gets a new stadium, obviously there are more Fortune 500 companies in New York and in Chicago than there are in Kansas City. So even getting a perfect situation doesn't mean you have access to the same sorts of revenues.

As a public policy question, I think fans would do well to ask not do I like my ball club. Of course, they do. Not is there an emotional reason why I want them to stay and be competitive, but pending substantial economic reform in baseball, are we merely throwing good money after bad by helping them to feed this problem, by helping them to build a new stadium which will only ultimately perpetuate revenue disparities or be part of perpetuating revenue disparities at higher levels.

If it is part of overall reform, then great. And if the players wind up making more money than they are making now, but in some way it is connected to some sort of coherent plan for competitive balance, that is great, too.

Senator DEWINE. Mr. Will.

Mr. WILL. Mr. Chairman, if baseball acumen and the running of a franchise could overwhelm revenue disparity, the Federal Government, instead of being alarmed by Microsoft, would be alarmed by breaking up the Expos. They had Larry Walker, they had Randy Johnson. As Bob Costas said, they have now seeded the major leagues with great players because no team finds and develops players better and no team is more incapable of keeping them. Too much is predictable in all of baseball by a simple number, the number of television sets in a particular team's market.

And there is another thing that has changed, Senator, and it is this: Fans are no longer as patient with competitive imbalance as they used to be. Time was, back when you were a Cincinnati fan, baseball had the undivided attention of the country from April until Ohio State played Michigan.

Senator DEWINE. That is not a very good subject today, Mr. Will.

Mr. WILL. I am sorry.

The NBA and the NFL were late arrivals on the scene, in the late 1950's, really. Today, there are 6 weeks between the last NBA championship game and the first NFL preseason game. The attention competition for space on the sports pages and for the attention of the sports fan is much more intense than ever before, and they are just not as patient as they were, nor should they be.

Mr. STADULIS. I think that is an excellent point. You know, if you are a fan in a small to mid-cap market area, you really sense there isn't sufficient time for additional data points, although obviously to be perfect you would like them.

Let me give you an example, the Florida Marlins. I think their payroll was something like $18 million this year. That had a whole history which was sort of disastrous which we know about, but the facts are something has to be done relatively quickly because baseball as an institution, as George just rightly said, is under increased competition from alternative forms. What are they? The XFL is now going to be launching a league that will extend into summer. You know what is happening with the NBA season prolonging, and so forth.

The availability to the average fan today of different choices continues to grow as we enrich this interactive media. So one of the great potential sources for baseball is this interactive media. We agree with that. On the other hand, it is a double-edged sword because interactive media is going to be able to provide the baseball fan a lot of other opportunities. So baseball unto itself has to survive to be a good value per dollar in terms of entertainment.

Senator DEWINE. Let me switch gears here for a moment. Professor Fort, you have stated in your testimony that only two of the recommendations in the Blue Ribbon Panel's report aimed at treating the symptoms of revenue imbalance were likely to have much of an impact. Those two are enhanced local revenue-sharing and the luxury tax.

Are there other things that you believe should be done to treat the symptoms of revenue imbalance?

Mr. FORT. Asking me what should and shouldn't be done, I can't——

Senator DEWINE. Well, or that would matter. Let's just put it that way. What matters?

Mr. FORT. The things that matter will be any mechanism that gets owners to think at the margin about hiring one more great player. If you make that more expensive, they will do less of it. That is how come it ends up that the luxury tax which is designed to do exactly that, and disproportionately so on rich-market teams rather teams farther down the line—that has that impact and will alter competitive balance.

So, too, will the sharing of new local revenues. Local revenues are driven by win percent. Win percent is driven by the talent that you choose. At the margin, then, if you make it more expensive for larger revenue market teams to buy players by taxing their new local revenues, forcing them to share more, the same thing will happen.

The kinds of things that were not addressed—the only other two that I could possibly think of were the salary cap and instituting a broader spectrum of playoff levels. The salary cap impact is well known. I mean, if it is defined and it is hard and it is enforced, which is an extremely difficult thing to do—other leagues have had difficulty with that—if it is well defined and enforced, then the whole goal is to get teams to spend closer to the same amount of money.

To the extent that that is enforced—again, there is the enforcement problem because small-revenue-market teams don't want to buy that much talent and large-revenue-market teams want to buy more. As long as it forces them there, then they will spend about the same amount on talent and competitive balance should reign.

The playoff activity, as we have already seen, and Mr. Costas spoke to plainly about, it reduces the probability that any given team makes it to the league championship series. And to the extent that it does that, it makes talent at the margin less valuable, and that reduces the incentive for large-revenue-market teams to buy more talent. If you are going to hit competitive balance from the top end, those are the things you would like to do.

Senator DEWINE. Let me stay on the issue of the salary cap. Mr. Costas had proposed in his book what I would call a hard salary cap. Mr. Will and Senator Mitchell talk about in the Blue Ribbon Panel what Mr. Will refers to as, I guess, a porous ceiling. Is that the term, a porous ceiling?

Mr. WILL. Yes.

Senator DEWINE. Let me start the line of questioning with Mr. Costas, but let me alert the panel that I am interested in this line of questioning, at least, from the perspective of a player. Why should a player be in favor of this?

Let me start my first question with Mr. Costas by asking how do you compare and contrast your proposal versus Mr. Will's and

Mr. Mitchell's and the Blue Ribbon Panel, and what do you think of their proposal in regard to the porous ceiling?

Mr. COSTAS. The conclusions and many of the suggestions in my book and in the Blue Ribbon Panel are very similar. I am not wedded to the idea of a hard cap. Even in the book, I used suggested figures for the purposes of argument, and those figures would slide as the game's revenues increased and everyone had an incentive to contribute to growing the pie. The key here is competitive balance, not suppressing players' salaries.

If you could show me a way in which the average player could make $10 million a year and superstars could make $50 million a year, but there would be some kind of competitive balance and the average fan could afford to go to a game, I would tip my cap to them. They are splendidly talented athletes and it is upon their talents that the game's popularity primarily rests.

So I wouldn't even mind a system whereby, let's say—and you could do this if the owners were willing to open their books and the revenues of the game could be fairly and independently audited. You establish a certain minimum figure based on a negotiated percentage of the game's revenues—and perhaps even estimates of equity could figure in to some extent—you establish a minimum figure that must go to the players in the aggregate.

Then you establish either a hard or porous cap, but most importantly some sort of salary floor so you have a range, as Senator Mitchell described, a range that approximates no more than two to one. If money spent on salaries within those ranges doesn't hit the minimum figure negotiated, baseball as an industry makes it up to the Players Association, which then can distribute it to its members any way it wants.

The purpose here is not to withhold funds unfairly from the players. The purpose is to recognize, as Senator Mitchell said and everyone here, I assume, recognizes, that a league is fundamentally different than other businesses in a free market economy. In order to have a league, there are always mechanisms in place; there are mechanisms now in place—roster limitations, trade deadlines, what not—that you would never consider in another business. And those mechanisms are designed to maintain some sort of competitive balance.

I think it also would be worthwhile to define for the record what most of us believe competitive balance to be. It is not everyone hovering around an 81 and 81 record. It is not 30 different teams winning the World Series over the next 30 years. It is the belief and understanding, especially on the part of fans, that every team has—and I am paraphrasing Mr. Will here—sufficient revenues relative to its competitors so that they will have at least periodic changes to contend if they use those resources wisely and a little bit of luck is factored in.

Senator DEWINE. Mr. Will.

Mr. WILL. We actually put it just slightly stronger. We didn't say periodic chances. We said competitive balance shall be defined as a regularly recurring, reasonable hope of making the post-season.

I can tell you that when our Panel met, we did not think of ourselves as writing the opening collective bargaining offer in a negotiation. We did, however, have some sense of feasibility, and a salary cap is nuclear war in the relations with the Players Association.

Second, anyone who watches the NFL, where teams now have people designated by the grotesque noun "capologist"—that is, his whole life is to try and fiddle the salary cap—and if you have watched the problems of the Minnesota Timberwolves and the huge fine on them, cheating is rampant under a salary cap.

What we provide with the used to be luxury tax, now rechristened the competitive balance tax, is a clean set of incentives to change behavior. I happen to be skeptical whether 50 percent is enough. You can fiddle that over time. But the fact is, if you want to know why players ought to give this a receptive hearing, look at your chart up there that says on opening day the Minnesota Twins' payroll was slightly larger than Kevin Brown's salary with the Los Angeles Dodgers.

So much attention is being paid to our proposal at the top, the $85 million threshold. More important than the porous ceiling is the rock solid floor that says no team shall be eligible to receive disproportionate allocations from the commissioner's pool unless and until their payroll reaches $40 million. Now, that changes by $24 million the reality for 25 players on the Minnesota Twins, and it makes the Twins and all the other players that are so moved up competitors in the bidding for free agent players.

Mr. COSTAS. You would think that they would view that as being in their best interest. And I think an overlooked feature of what I call the floor to ceiling type arrangement is if you are at $40 million—and again that is an arbitrary figure, but it seems a reasonable place to start—if you are at $40 million and you know that your top competitor is unlikely to jump from $84 million to $100 million, you have a greater incentive to go to $50 million.

If you are at $60 million, you have got a greater incentive to figure out a way to go to $65 million if the Yankees or the Braves or the Dodgers can't redouble that advantage at the top. And if the players saw it that way and took a forest-for-the-trees view that there issues in their best interest besides dollar figures, especially when the dollar figures are guaranteed to be very, very high anyway, they would see that the overall state of the game and its basic competitive balance is in their interest as well as the owners and the fans' interest.

Senator DEWINE. Mr. Fort, then Mr. Will.

Mr. FORT. I think the answer to your question, Senator, is a very direct one. All you have to do is remember how the salary cap, if there were such a thing in baseball, would likely be instituted.

Under collective bargaining, they would decide the share of some defined gross revenue that would go to players, and then also under collective bargaining they would decide how it would be allocated within a team for the players on a given team. In the NBA, for example, there are negotiated outcomes for rookies that didn't use to exist.

Your question was why would a player ever support the salary cap? The answer on the first basis is, writ large, if through collective bargaining players think they can get a larger percentage of revenue than they otherwise could get, then the union would inform their membership of that. And everyone would be in favor of that because it is a larger share of the pie than they would previously be able to get.

Senator DEWINE. A larger pot to be divided among players.

Mr. FORT. Exactly, exactly.

Now, the second part of it then depends on how the rules are set when we get to the level of the most that can be spent on a per-team basis. Not knowing a lot about the fundamentals of union politics, at that point what matters is who is in control of the union and whether the flow of money within a given team structure moves to those people who are most powerful within the union structure.

So I think the real answer to your question is just simply any given player decides will I be better off or not under the salary cap. There are some scenarios I can envision where they would be. And then they make their choice. If the union is run on a majority rule basis, then maybe the better interest and the greater good of all players will prevail. For example, in the NFL, relative to Major League Baseball, teams are larger and it is so much more difficult for stars to have dominance in the union.

Senator DEWINE. Mr. Will.

Mr. WILL. Mr. Chairman, the Players Association has a very legitimate grievance about behavior under the current model; that is, some teams at the very bottom of the pay scale take their revenue-sharing money and pocket it and turn a small profit because it is rational to do so. It makes no sense for a team with a $20 million payroll to spend $5 million extra on players because it is not going to change their competitive situation. It is not going to advance them measurably toward the post-season.

What we have done with our proposal with the powerful incentive to raise payrolls to $40 million is address that explicit and just grievance that the players have by guaranteeing that many more dollars will be spent in places like Minnesota on players.

Senator DEWINE. I understand that no one can predict what would happen, but I would be interested in your comments. Under the Blue Ribbon proposal, with not only the porous ceiling, but also what in effect is a floor of $40 million, who does win and who does lose?

Mr. WILL. Well, as I say, the Panel itself is agnostic.

Senator DEWINE. I understand that.

Mr. WILL. What we guarantee is there will be a redistribution of revenues, and we think it is at least possible—I think probable—that aggregate spending on players will not decrease.

Mr. COSTAS. Senator DeWine, there are also, I guess, two ways to look at it. There is the aggregate spending on players and then there is what would be the impact on the majority of players. It is possible that while the aggregate might remain steady, fall slightly, rise slightly, there are scenarios wherein the average player, the run-of-the-mill starter, the bench player would fare better and the superstar would fare slightly less well.

And the hope would be that even if that was a predicted outcome that the superstar would view this, especially given the levels of compensation now, the same way that the large-market owner, we hope, in the long run will view it, that there is a sacrifice to be made for the greater good. And it is not such a terrible sacrifice that they won't still prosper, and prosper to a great extent.

Mr. FORT. And I think what can't be known, although there may be some cause for optimism looking at other sports that have adopted this approach of moving toward more balance, is that the overall demand for market brand name, for major league brand name, could increase so that everybody really is better off.

I mean, if the owners and the players do find that place of competitive balance that fans crave the most——

Senator DEWINE. That optimum point.

Mr. FORT. Well, "optimum" is interesting language for me.

Senator DEWINE. Well, your point, I think, is an interesting point that it is not a static model. I am not the economist; you have to jump in here and correct me. But, basically, if you believe that competition is good not just for fans from the point of view that we would like competition and we want our team to have a chance, but it is also good for the sport and it does, in fact, maximize income—if you believe that, then there is a good argument that you are baking a bigger pie, and we would all like to bake a bigger pie.

Mr. FORT. That is nicely put in a way that I could only confuse. Yes, I mean you are going to anticipate that when folks get a brand name with Major League Baseball, which is what Mr. Turner did with the Braves essentially—I mean, the major market for the Braves is not Atlanta; it is nationwide. He was able to peddle that brand name. If fans identify with that in a much greater way, the more balanced the league is, the pie gets bigger and all players could well be better off even if there is a cap.

Senator DEWINE. Mr. Stadulis, you have been trying to jump in here, and I apologize.

Mr. STADULIS. This porous ceiling—and you mentioned you have got the teams and the leagues and you have got the players, and who wins and losses in this deal. Well, there is a third party. I mean, it is the owners and the teams and it is the players and the union, but it is the fans.

By the way, we have a healthy skepticism about this porous ceiling and this bedrock $40 million, and that is that if it doesn't work, ticket prices continue to rise to the point where—by the way, we tout the fact to our folks that baseball continues to be the most affordable family spectator major sports entertainment in the country. We think baseball has to maintain that.

What the players have to lose in this deal to us as fans is so simple, it really is. They are going to lose jobs. This is not a question of everybody making $90 million 5 years from now. You really have to see what is happening. I mean, go to some of the small-cap teams and look at those stadiums during a game. They are empty.

The argument was we have got to have at least two teams to have a game; we have got to have at least maybe eight teams to have a league. That is really the problem I think we have got to address over the next years.

Senator DEWINE. Well, let me follow that up. One of the Panel's recommendations is to improve its marketing strategy to increase baseball's popularity. As the head of a fan organization, what do you think needs to be done to increase the fan base besides what you have already said? Anything else?

Mr. STADULIS. Yes, I think one thing—and some of the teams are starting to do it locally. I know the league is starting to do it. I think we have got to reengage the young people. This notion about this interactive capability of baseball is extremely important because that is where you capture a lot of younger people today, you know, at the personal computer, and we have to be able to engage them at that level.

Second, a lot of us grew up loving this game through sandlot sports. A lot of the sandlots are gone. We have to start encouraging participation as well. As we internationalize the sport, there is no question, present course and speed, in my opinion—and I think some fans would agree with me, and I am not saying this is bad, but there are going to be fewer and fewer American ball players. I mean, that is the way we are heading.

If you can go to Santo Domingo or the Dominican Republic and get a guy who is tremendously talented and bring him in, versus taking another guy from America who is a good ball player as well, but for a heck of a lot more money, you know which way you are going to go. So I think increasing somehow this sandlot participation across the country, engaging people in the new interactive level, I think would make a major step in trying to get the future fan back reengaged.

Senator DEWINE. Mr. Will.

Mr. WILL. Senator, it is no secret that there is a constituency within the ownership group for the idea of contraction; that is, closing some teams that are simply too weak.

Senator DEWINE. That was my next question.

Mr. WILL. Our Panel did not address that because we believe, with all pride of authorship, that what we have provided would make that unnecessary. But unless something is done, there are going to be teams that are going to be closed. It has to happen.

Mr. COSTAS. And that will obviously cost the players jobs. You go back by at least two. You could make an argument, if you really want to get the job done, not just to lop off the weak sisters but to have divisions that make sense and have scheduling that makes sense, go from 30 to 24. You take 150 jobs right there, and it is really more than 150 because there are always players who are hurt or on the fringes of rosters. So it might be something closer to 200. So, again, that is another part of the answer of how all of this and solving it in some equitable way is in the players' best interest.

One more stray point, Mr. Chairman. I think we might do well to define or answer whether or not excellence or dominance is a problem in sports. In and of itself, not only is it not a problem, it draws fans and it draws viewers. People love to watch Tiger Woods or the UCLA dynasty. The question is how is that excellence or dominance achieved.

At roughly the same time as the Yankees were building their four out of five and three straight, Michael Jordan's Bulls were winning six of eight, and really six in a row when he was there for a full season. Why did that not trouble NBA fans, except if he beat your team in the playoffs? Because there was nothing within the structure of the NBA that stacked the deck in favor of the Bulls.

They drafted Michael Jordan; any time could have if they came up in the same rotation. They got Scotty Pippen in a draft-day trade.

Fans of the NBA do not believe that the Clippers are doomed to failure because of a systemic problem in the NBA. They believe it is because their management is incapable. NFL fans have no reason to believe that the Arizona Cardinals are doomed to failure by the structure of the league, but rather by either a colossal run of bad luck or the ineptitude of their management.

During the same rough period of time as these problems were crystallizing in baseball, the Green Bay Packers went to back-to-back Super Bowls in the NFL. No one thinks that the Packers are at a significant competitive disadvantage relative to the Jets or the Giants in New York. But the Milwaukee Brewers, occupying essentially the same market as the Green Bay Packers, may as well be on a different planet from the Yankees or the Mets.

And in looking at this year's World Series—and there are many, many factors that impact on the rating of all sports these days, so we shouldn't attribute it to any one thing, but I think a guy in Montana or some lady in Iowa who looks at the Yankees and Mets playing in the World Series may be relatively disinterested not just because of a geographic distance, but because he or she no longer views it as a serendipitous outcome. How about that, two teams in the same city get to ride the subway, let's talk about Jackie Robinson and Joe DiMaggio. They view it as an almost inevitable outcome of the way the deck is stacked.

So, yes, did this season produce the anomalies short term, the lightning in a bottle situations of the A's and the White Sox? Yes. But at the end, the number one payroll played the number three payroll.

Mr. WILL. And if the Yankees sign the pitchers they now have and add Mike Mussina, their pitching staff will be paid $50 million next year. Now, this is not to fault George Steinbrenner, who is a good baseball man. And up to a point, as Bob says, a dynasty such as the Yankees is a good thing. But let's also bear in mind that operating in New York is not in itself an act of entrepreneurial genius. It is simply a terrific advantage.

Senator DEWINE. With the exception of Mr. Will's last comment, we have spent the last 15 minutes or so talking about from the point of view of a player how a player should react, or not maybe "should," but what the reality is as far as whether this Blue Ribbon Panel report is good news for the players or bad and whether or not when we get to collective bargaining some version of this is something that is potentially doable from their perspective.

Let me turn to the question that I asked Mr. Selig. Short of outvoting, Mr. Will, as you say, some of the owners, what is in this—I will ask this panel the same question I asked him—what is in this for the owner who says I bought the New York market, I paid for it, I built it here? Or in Atlanta, I have built up the national team, as you said. Hey, it is America. I did it. Why should I be sharing with the some of these other teams? They knew what they bought when they bought them.

Mr. COSTAS. A good opinion of history.

Mr. WILL. I have a better answer.

Mr. COSTAS. I hope so.

Mr. WILL. Well, the answer is the other 29 turn to that obdurate team that will go nameless and say, you want to play big league baseball, you have to play us. And you have to come to some kind of accommodation because that is the way it is in a sports league. It is a cooperative contrivance to produce unpredictability.

Senator DEWINE. Any other comments? Any closing comments, anything else? One last shot, anybody?

I want to thank our three panels and all our witnesses today. Our purpose today was to use this subcommittee as the opportunity to bring people together who are knowledgeable in the field to talk about an issue that has to do with competition. This is the competition subcommittee, the antitrust subcommittee.

Since I have become chairman and Herb Kohl as the ranking member, we have held, I think, over 35 hearings. We have looked at every aspect of American business. We have looked at the area of competition. This particular subcommittee has a long history over many, many decades of looking at baseball. So it shouldn't come as a surprise to anyone that we held this hearing.

Our purpose today is not to write legislation, but is to do the other thing that Congress does, and that is to put a spotlight on issues that have national importance. I believe this does have national importance. I believe that the evidence is overwhelming that baseball is in a very, very dangerous era for the sport, that the trend lines are clearly there in all of these charts and many, many more that we could have put up, that competition is important in baseball, as it is important in any business.

And it is incumbent upon those who have been entrusted with the national game—Mr. Costas used the word "caretaker"; we could use other words, "custodian." We could use any word anyone would like, but those who happen to have the ownership of baseball and those who in this era happen to be playing need to look long and hard at this problem. And I think they will see that it is a problem, and it is a problem that has to be corrected.

I thought Mr. Selig's testimony was informative. I thought of particular note was—and I will leave it to everyone who heard the testimony, but my interpretation of the testimony is that he believes he has the votes among the owners to basically implement a significant portion of the Blue Ribbon Panel recommendations, without saying that every line would be adopted.

I think obviously the other issue is the players and whether or not the players believe it is in their best interest to deal with this problem, and how the two parties together can work it out so that it is in the best interest of baseball, in the best interest of the players collectively as a group, and also in the best interest of the fans.

So I thank all of you for your testimony. I think it has been enlightening. I think we put a spotlight on this issue, and now we will await the verdict, as Mr. Costas was talking about, of history and see whether or not everyone who is dealing with baseball today and in charge and who can make decisions are able to solve the problem.

I thank you all very much.

[Whereupon, at 12:50 p.m., the subcommittee was adjourned.]

APPENDIX

Additional Submissions for the Record

Prepared Statement of Raymond Pecor, Owner of Vermont Expos and Ottawa Lynx

Mr. Chairman, thank you for allowing me to submit testimony today for this important hearing on the state of antitrust law and labor relations in baseball.

One aspect that is continually overlooked in all these discussions is the impact major league bargaining has on minor league baseball. I am the owner of the Montreal Expos' single-A affiliate Vermont Expos, and triple-A affiliate Ottawa Lynx. There are many rumors swirling around about the Montreal team leaving the city and moving to greener pastures, possibly in Charlotte, North Carolina or Washington, D.C.

While losing the ballclub in Montreal would be bad for that city, this difficult situation would also directly affect Vermonters. First, Montreal is the closest major league city to a large portion of the state's population. And second, I have some concerns about being able to maintain my Expos team in Vermont and Ottawa over the long term.

The latest Major League Baseball blue-ribbon panel of experts has examined the financial situation of the sport and come to many conclusions. The panel has advocated moving some struggling franchises to new cities. They have called for some form of a real revenue sharing system that allows the small market teams to actively compete with large market teams. And they have backed establishing minimum payrolls for all clubs. But while I believe these are reasonable proposals and we must restructure the present system in order for it to remain viable in the new century, I hope we will also consider the fate of minor league baseball as well.

When I first decided to pursue purchasing a New York-Penn League team and moving it to the Burlington, Vermont, area I wanted to make sure I got a team with strong local roots. I wanted a team affiliated with the Boston Red Sox, Montreal Expos, New York Yankees, or New York Mets so that fans of those major league teams in the area would be able to see the stars of tomorrow at Centennial Field. I was doubly fortunate to land the Montreal team not only because it is a local team but also because they have a strong minor league system. In fact, eighteen Vermont Expos players have made it to the major leagues.

Since the Montreal Expos have been forced to sell off most of their young, promising talent and have been hamstrung in their efforts to dabble in the free agent market, minor league players move more rapidly through the Montreal system. While it is great for the fans in Vermont to be able to see former Vermont Expos playing in Montreal within a couple of years, rapid advancement of players can adversely affect every level of the minor league system.

Montreal teams are now playing teams in their leagues that are a considerable level above them. If the Montreal Expos' roster is full of triple-A talent, then their triple-A roster is full of double-A talent, and their double-A roster is full of single-A talent. That makes it difficult for the Montreal minor league teams to compete with their wealthier competitors day-in and day-out. That hurts the development of the players, the ability of minor league teams to advertise their teams, and ultimately the major league product.

The Montreal Expos are now faced with the very real possibility of either moving out of Montreal or being forced to fold their franchise. And Montreal is not alone in this perilous situation. Owners in Minnesota, Oakland, Tampa Bay, and Florida have all indicated that without additional revenue streams their ballclubs cannot fairly compete with wealthier clubs. I am very concerned about how an Expos move, or even worse an Expos implosion, would affect my teams in Vermont and Ottawa.

In fact, this past August the Ottawa Lynx notified minor league baseball's head office of our intention to explore new affiliation options with major league clubs starting in the 2001 season. Our current four-year player development contract with the Montreal Expos expired at the end of this past baseball season.

As you know, major league teams draft available young players and assign them to minor league clubs. These minor league players must then stay with the teams that drafted them. Though the traditional reserve clause has been relaxed at the major league level, it is strictly enforced at the minor league level. In fact, minor league players are actually employees of the major league teams and are the only players still fully governed by baseball's historic reserve system.

In this way, the minor league clubs themselves have no say over the players on their teams—that is the job of major and minor league scouts and development directors. That system has made it impossible for us to maintain a competitive team on the field. Last season, for instance, the Lynx ended the baseball campaign with their fifth consecutive losing season. While we have had a good relationship with our parent team for the past seven years, we do need to protect our own interests.

Mr. Chairman, it is time for us to examine the implications that decisions at the major league level have on the minor leagues. While eliminating a couple of teams might seem like a viable short term solution, we must remember that at least eight other cities—those housing the minor league teams—would be greatly affected. And while moving franchises around might also seem like a short-term solution, we must remember that teams like the Oakland A's and Minnesota Twins moved to their respective areas because they were the green pastures of decades gone by.

Minor league baseball is growing more rapidly than Major League Baseball because it is affordable to most Americans, is played in many more cities and towns, and is far from the tit-for-tat players and owners fights of the past few decades. When debating the long-range plans for baseball, we must also protect the interests of the minor leagues as well.

Again, thank you Mr. Chairman for holding this important hearing today and allowing me to submit this testimony. I hope this hearing leads to concrete proposals that will put baseball back on solid financial footing at the dawn of the new century.

PREPARED STATEMENT OF ANDREW ZIMBALIST, ROBERT A. WOODS PROFESSOR OF ECONOMICS, SMITH COLLEGE, NORTHAMPTON, MA

Baseball 2000 is history. It was not a bad year in the aggregate, but try telling that to fans in Montreal, Minneapolis, Milwaukee or a dozen other cities not beginning with the letter M.

In addition to the action on the field, there were two significant baseball events. First, the Players Association opted to extend the life of the 1996 collective bargaining agreement one more year, through the 2001 season. Baseball fans, thus, can look forward to one more uninterrupted season of play, but baseball's tumultuous labor relations will then be put to the test once again.

Second, Commissioner Selig's Blue Ribbon Panel report on the economics of the game was published in July 2000. In some respects, it seems that the panel's four prominent members—Paul Volcker, George Will, George Mitchell and Richard Levin—did little more during their 18 months of deliberation than read the first edition of Bob Costas' Fair Ball. The report carefully documents the deterioration in baseball's competitive balance during the 1990s, then calls for increased revenue sharing with a plan not dissimilar to that proposed by Costas. Unfortunately, along the way, the Blue Ribbon Panel also made a number of missteps that has led many commentators to dismiss the report in its entirety.

WHAT'S WRONG AND WHY

Before discussing the Blue Ribbon report in more detail, however, it is necessary to review the evidence of baseball's present predicament and how it got there. If we divide baseball teams into quartiles (25 percent groupings) according to their payrolls, then the following depressing outcomes apply during the five seasons between 1995 and 1999:

- No team in the bottom two quartiles won any of the 158 playoff games.
- Every World Series champion was from the top quartile of team payrolls and no club below the first quartile won a single World Series game.
- The only non-first quartile club to reach the World Series over this five-year span was the San Diego Padres in 1998. In that year, the Padres' payroll was in the second quartile and they lost in four straight games to the New York Yankees.

This pattern was modified a bit in 2000. Of the eight playoff teams, three were not in the top ten in team payroll: San Francisco Giants ($54 million payroll); Chicago White Sox ($37 million) and Oakland ($32 million). None of the three teams, however, made it beyond the first round division series. In contrast, the first and fifth payroll teams made it to the World Series, and, once again, the top payroll team won.

Of course, there has always been competitive imbalance in baseball and as long as one team has something other than a 50 percent chance to win a game there always will be. The operative question is not whether or not there is imbalance, but how much of it is healthy or even tolerable. To some degree, baseball or any other sport would rather have teams from bigger cities win more frequently than teams from smaller cities. Among other things, big city teams will help raise television ratings for postseason games. But you can only take this logic so far. If teams from small or medium markets have but miniscule chances to play in the postseason, let alone win the World Series, year after year, then fans rightfully lose interest.

Baseball since 1995 seems to be increasingly in this predicament. Despite several new stadiums being introduced each year and successful assaults on the single-season home run record, baseball's attendance per team has leveled off and in-season and post-season television ratings have continued to drop. Outside of New York there was near apathy about the media capital's vaunted subway series.

Some say the past five years represent nothing more than yet another Yankee dynasty. The last period of Yankee dominance in the 1950s and early 1960s, however, was not a time that baseball should seek to emulate. Between 1950 and 1965 average attendance at games grew by less than 3 percent over the entire fifteen years, even though real ticket prices remained virtually flat. Yet during the same period real disposable incomes in the United States grew by 74 percent. Moreover, four and five decades ago baseball stood alone on the pedestal of popular team sports. Today, it is seriously challenged by the NBA and NFL as well as by the growing list of new professional sports and entertainment options on television and the internet.

Competitive balance in baseball had steadily improved from 1965 (the year the reverse-order draft of amateurs was introduced) through the 1980s.[1] Free agency gave competitive balance a further boost after 1976. Prior to free agency, when players were stuck with teams for their whole careers unless they were traded or released, big-city owners bought good players from small-city owners. The money (from the extra revenue produced by the player) went to the owner, not the player. With free agency, it became more difficult to hold a winning team together and weak teams became more able to improve themselves rapidly in the free agent market. The era of team dynasties seemed to be gone forever and Major League Baseball's 1990 economic study committee found there to be only a slight correlation between city size and team performance.

Then came the 1990s. At first, the news was good. Baseball signed a new national television contract with CBS and ESPN for 1990–93, which together with growing central licensing, superstation and copyright Royalty Tribunal revenues, meant that each and every team received some $19 million a year from baseball's central coffers. In 1990, this was almost 40 percent of average team revenues.

But in 1994 baseball's new national television contract fell by over 60 percent. Exacerbating matters, certain big market teams, like the Yankees, were earning over $40 million a year in unshared, local media revenues, and the era of the new, big-revenue-generating stadiums was ushered in by Camden Yards in 1992. With centrally-distributed monies below $10 million per club, teams with a big market or new stadium found themselves with a rapidly growing revenue advantage.

While the revenue disparity between the richest and poorest team was around $30 million in 1989, by 1999 it was over $160 million. Local revenues (including all stadium-related and local media income) in 1999 went from a high of $176 million for the Yankees to a low of $12 million for the Montreal Expos.[2]

To this volatile mixture, add the emergence of new franchise owners who also own international communications networks or are attempting to build regional sports channels. These owners value their ballplayers not only by the value they produce on the field but what they produce for their networks. When Rupert Murdock signed 33-year-old Kevin Brown to a seven-year deal worth an average of $15 million annually, he was thinking about the News Corp's emerging influence via satellite tele-

[1] In fact, if we use the standard deviation of win percentages as our gauge, there was a gradual, secular increase in baseball's competitive balance between 1903 and the 1980s. Prior to 1965, this increase in balance is most likely attributable to greater talent compression. See the explanation in text below.

[2] Richard Levin et al., The Report of the Independent Members of the Commissioner's Blue Ribbon Panel on Baseball's Economics. Major League Baseball, July 2000, p. 17.

vision in the huge Asian market. When Steinbrenner opened up his wallet for David Cone ($12 million 2000) or Roger Clemens ($30 million for 2001–02, and 2003 if Clemens is up for it), he had in mind creating a new New York sports channel built around the Yankees. In these and other instances, the owners of baseball teams do not treat their teams as stand-alone profit centers; rather, the team is a cog in a larger corporate machine, used to maximize the long-term profits of a conglomerate.

Further, baseball's expansion by four teams in the 1990s, while adding excitement to the game, makes the star players stand out more and, thereby, makes it easier to buy a winning team. Consider these facts: there were sixteen perfect games pitched in 98 years of modern baseball history, but two of those were in the last three years. Sixty home runs stands up as a single season record for 34 years; 61 stands up for 37 more, and then two players hit 66 and 70 in one year. If McGwire's record is due only to a livelier ball, lower mound, smaller strike zone or andro, how come pitchers are also setting records?

Why were almost all of baseball's personal achievement records set between 1910 and 1930? Hornsby batted .424 in 1924, Wilson knocked in 190 runs in 1930, Webb whacked 67 doubles in 1931, Ruth scored 177 runs in 1921, and Leonard had a 1.01 ERA in 1914. Many seem to believe that the reason is players in the good old days were better. Not so. Baseball stats are the product of competing forces and reveal little about the absolute quality of the players.

The reason has to do with relative degrees of talent compression. The distribution of baseball skills in the population follows a standard normal distribution (like a bell-shaped curve). For any curve, the larger the number of people selected to play major league baseball, the greater will be the difference between the best and the worst players in the league. If the population grows and the number of baseball teams does not, then the proportion of the population playing falls and the distribution of talent becomes more compressed. This is what happened in MLB between 1903 and 1960, with the population growing from 80 million to 181 million and the number of teams remaining constant at sixteen.

Moreover, in the late forties baseball began to accept black players and recruit Latin and other international players in greater numbers. This accentuated the compression, while better nurturance of baseball skills[3] and physical abilities in general offset the growing appeal of football and basketball to American youth.

With talent increasingly compressed, the difference in skills between the best and worst players grew more narrow and it became more difficult for the best players to stand out as much. Hence, records ceased being broken, or even approached (save the asterisked performance by Maris in 1961, the first year of MLB expansion).

Thus, it makes little sense to argue that Ruth hit more home runs per season than Killebrew because he was stronger or had superior baseball skills. it makes more sense to suspect that Ruth played during a time when talent was more dispersed, so he faced many superb pitchers but he also faced a much larger number of weak pitchers than did Killebrew. Similarly, Dutch Leonard or Walter Johnson (ERA of 1.09 in 1913) faced some spectacular hitters, but they also faced a much larger number of weak hitters than did Sandy Koufax, Ron Guidry or Roger Clemens.

The ratio of the U.S. population to the number of major league players rose from 250,000 to 1 in 1903, to 307,500 to 1 in 1930, and 452,500 to 1 in 1960; thereafter it fell gradually to 385,000 to 1 in 1990, and 360,000 to 1 in 1998, after MLB's second expansion by two teams in the nineties. Thus, talent decompression gradually set in after 1960 and by 1998 the ratio had almost fallen back to the level in 1930.

So, today McGwires, Sosas, Rodriguezes, Martinezes, and Wells' can more easily excel. Equally important, when the better players can more reliably outperform the others, it becomes easier to buy a winning team. It is one thing for the Yankees to generate $176 million in local revenue while the Expos generate $12 million. If Steinbrenner/Cashman spend their budget on underperforming, overpaid players, then the Yankees will squander their revenue advantage. Yet the more individual players consistently stand out, the more difficult it is for inept management to squander a revenue advantage.

When the latter phenomenon is combined with sharply growing revenue disparities among teams and the presence of media conglomerate ownership, baseball's delicate competitive balance is threatened. If you were an avid baseball fan in Pittsburgh, how would you feel about these facts:

- In 1995, the payroll of teams in the top quartile was 2.6 times that of the bottom quartile, but by 2000 the top quartile spent 3.5 times as much on payroll as the bottom quartile;

[3] Little League, for instance, was not introduced until just prior to World War II.

• Between 1995 and 2000, the difference between the highest and lowest club's payrolls grew from $45 million to $97 million;

• The statistical correlation between team payrolls and team won/loss percentages was not significant in any year between 1987 and 1992, but in every year between 1995 and 2000 this relationship was significant at the highest (1 percent) level.[4]

This does not mean that rich teams are guaranteed to finish first, nor that an occasional poor team can't win its division. It does, however, mean that the historical probabilities shift sharply against poor teams. Fans gradually lose interest.

The evidence of the problem is sufficiently compelling that it is time to do something about it. The upcoming renegotiation of the collective bargaining agreement presents an excellent opportunity to right baseball's course.

WHAT IS TO BE DONE?

In theory, there are many ways to address MLB's economic and competitive balance problems. The trick, however, is to solve the problems in practice, not in theory. This means dealing with the rich teams' owners who do not want to part with their revenue advantage and dealing with the Players Association which does not want to accept any new policies that will harm the players' interests.

At their meetings in January 2000, Major Leagues Baseball's owners gave Commissioner Bud Selig unprecedented formal power. Given the historical disagreements among the owners and the game's absence of effective leadership, it is hard to quarrel with the effort to strengthen the commissioner's office.

One significant measure granted Selig the authority to do whatever is necessary to assure competitive balance in the game. A magnanimous gesture, and who could argue with its goal? The problem comes in implementation.

If we take MLB's press releases at their word, then George Steinbrenner, Rupert Murdoch and Peter Angelos, among others, will sit idly by if Bud Selig decides that all local media money will be distributed among the clubs. Maybe so, but we'd bet on John Rocker playing shortstop for the Yankees first.

More likely, Steinbrenner, who already sued baseball once on antitrust grounds so he could pursue his sponsorship deal with adidas, would take MLB to court, claiming that a significant portion of his property being confiscated. Presumably, Selig knows this and would only act with consensus among the owners.

Selig must also know that any initiative by him to redistribute the game's riches will smack of a conflict of interest. Even though his ownership interest in the Brewers is in a blind trust during his term as commissioner, when he leaves the job the value of his team to him and his family will be much greater. Is Bud Selig really the man to lead this charge?

Furthermore, even if Steinbrenner did put Rocker at shortstop and offer to share his local television money, what would Selig do about Donald Fehr and the Players' Association? Revenue sharing is subject to collective bargaining, and with good reason. The more revenue that gets shared, the lower the payoff to having a successful team and the less a player is worth to an individual owner. After all, it is largely for this reason that the NFL, which generates significantly more revenue and higher franchise values than the other sports, has the lowest salaries. In 1999, the average NFL salary was $1.07 million, compared to $1.19 million in the NHL, $1.72 in MLB and $3.52 in the NBA. And the highest individual salary in the NFL in 1999 was $5.87 million, compared to $10.36 million in the NHL, $11.95 million in MLB and $20.17 million in the NBA.

Thus, any changes in baseball's revenue sharing rules will have to be collectively bargained with the players. While the players accepted the additional revenue sharing that was added in the 1995 collective bargaining agreement (which in 2000 amounted to a total of around $140 million going from the top to the bottom teams), it is likely that they will want concessions in exchange for further revenue sharing.

The players will also want a say in how the revenue sharing is done. If it is done out of a team's actual revenues, then the team will have less incentive to pay a player his full value (because some of that value is shared with other teams who do not hire the player). If, however, the sharing is out of potential revenues (based on the size of the local market and stadium conditions), then teams will have a greater incentive to win and pay players top dollar. All this has to be bargained and cannot be decided unilaterally by the commissioner's office.

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[4] Of course, part of the problem here is the 1994–95 work stoppage. Lower revenue teams were left financially debilitated by the strike and were less likely to bid aggressively for free agents. The persistence of this pattern beyond 1996 as well as a statistically significant relationship between payrolls and performance in 1993 and 1994, however, suggest that the work stoppage is hardly the only important factor at work.

Another vote the owners took at the winter meetings declared that in the future teams will pool their separate internet businesses.[5] Once MLB's contract with SportsLine.com ends after the 2001 season, baseball's central office will be able to contract with national advertisers and sponsors for its newly-controlled website. It is possible, but not inevitable, that this will generate more revenue than would 30 separate websites. The central site will lose local advertisers.

What is positive, however, is that the internet money will be shared equally among the clubs. (Some reports suggest that Commissioner Selig has the power to distribute more of this revenue to low income than to high income teams if he thinks that will benefit the game.) But how much money will there be? Today, the most successful team sites generate a gross of around $1 million. But if more companies advertise on internet sites, won't there be less demand for advertising at the ballpark and on television? Similarly, if more goods sell on the internet sites, won't fewer goods be sold via other channels? At the end of the day, there are a finite number of fans with finite income.

The internet accord also raises the question about what happens when broadband technology begins to accommodate effectively both intenet and television data. Does this accord mean that the Yankees have already signed on to centralizing their local television money?

There is nothing wrong with these owners initiatives. At the very least, they signal an emerging consensus among the owners that is positive. The issue is that these initiatives are being trumpeted as solutions and they are not. They raise more questions than they provide answers.

The commissioner's Blue Ribbon Panel report of July 2000 attempts to provide some answers. While this report is marred by dubious analysis and inaccurate assertions at points, its larger message about growing competitive imbalance and its prescriptions for remedy deserve consideration.

Unfortunately, many writers dismissed the report out of hand because its authors have longstanding relationships with MLB or because of the report's willingness to accept uncritically certain ownership claims about the industry's lack of profitability.

This is precisely what Forbes magazine writers, Michael Ozanian and Kurt Badenhausen, did in their Wall Street Journal op-ed on July 27, 2000. Ozanian and Badenhausen denounce the report as a "charade" because its authors uncritically accepted MLB's claim that only three teams made money between 1995 and 1999. To be sure, this claim is not credible. Baseball accounting provides all sorts of ways to hide profitability, as MLB's current President Paul Beeston instructed us several years ago: "Under generally accepted accounting principles, I can turn a $4 million profit into a $2 million loss and I can get every national accounting firm to agree with me.

Nor does the lack of profitability allegation adjust for the presence of significant waste in baseball's management. On November 14, 2000, Jerry Colangelo, managing General Partner of the Arizona Diamondbacks, told the Arizona Republic that he would cut front office expenses by $10 million without affecting the team's operation or the product. If the quality of the team could be maintained with $10 million less, then why was this money being spent in the first place? Perhaps part of the problem lies in Major League Baseball's status as a monopoly.

Back to Ozanian and Badenhausen. They base their argument on their own estimates of MLB franchise values which reveal substantial appreciation over the last two decades. They reason that franchise values would not rise were the industry not profitable. They are half right.

First, their data show appreciation over a longer time span than the period considered by the Blue Ribbon report. Second, franchise values properly reflect expected future profits, not recent profits. Third, there are multiple ways that an owner can receive a return on his or her investment in a baseball team besides financial profits. Others include related party transactions between the team and other businesses belonging to the same owner, synergies between the team and these businesses, greater access to politicians and ability to shape legislation, enjoyment of the power and perquisites of ownership, tax sheltering, and so on. The value of a franchise will reflect all these sources of investment return, not just financial profitability.

That said, it is likely that reality lies somewhere in between—many teams in MLB do have financial difficulty and many do not. The Blue Ribbon Report unquestionably loses some credibility by uncritically regurgitating ownership claims of ubiquitous financial woes. Similarly, the Report loses credibility when it incorrectly

[5] The Padova decision in Piazza et al. v. MLB notwithstanding, it is a lucky thing for baseball that most still presume the industry is protected by a blanket antitrust exemption.

states that NCAA rules strip a college basketball player of eligibility once he enters the NBA draft or when it asserts that higher salaries cause escalation of ticket prices.

These and other shortcomings, however, have little to do with the main thrust of the Report's analysis. The great bulk of the 87-page report concerns baseball's growing competitive imbalance and what to do about it.

After presenting clear evidence of growing inbalance, the Blue Ribbon Panel makes several recommendations. First, MLB should levy a 40 to 50 percent tax on a club's net local revenues, then put the money into a central pool and distribute 1/30th of the pool to each club. The 1999 revenue sharing plan had each club (excluding Tampa Bay and Arizona) contribute roughly 17 percent of its net local revenue to such a pool. Distributions from the pool were then make equally to 28 clubs, with some modest, additional distributions to the bottom revenue teams. In the 1999 plan, the Yankees contributed a net amount of $18 million.[6]

In the Blue Ribbon panel's plan, the Yankee contribution would rise to approximately $21 million (using 1999 figures and assuming the tax is set at 50 percent, Yankee stadium expenses are $20 million and total MLB stadium expenses are $500 million). That is, the Blue Ribbon plan would only increase the new Yankee contributions by some $3 million—not much for Mr. Steinbrenner to squawk about.[7]

But the real impact comes from the incentive effect of this local revenue tax. Again, assuming the tax is set at 50 percent, then each increment to a team's net local revenue is reduced by 48.3 percent. This is because half is taken away by the tax and 1.67 percent is returned by the subsequent equal distribution from the pool to each club. Hence, suppose Mr. Steinbrenner is contemplating the signing of Manny Ramirez during the offseason and estimates that with Ramirez in the Yankee outfield the team will generate an additional $16 million in annual local revenue. Without the local revenue tax, Steinbrenner should be willing to offer Ramirez any salary up to $16 million. With the tax, he should be willing to offer Ramirez any salary up to $8.27 million [$16 million X (1 − .483)]! (Of course, it is also possible that if Steinbrenner forms a regional sports channel Ramirez will have an additional impact by increasing the value of the channel. Such a factor may increase Ramirez's salary beyond this level. Steinbrenner could recapture some of this value by taking the channel public.)

Thus, the revenue redistributive impact of this provision is likely to be considerably weaker than its salary restraint impact. Perhaps this observation helps to explain why the Blue Ribbon panelists avoided recommending a salary cap and why the Players Association may be less than enthusiastic about this method of revenue sharing.

The panel's second recommendation—for an additional 50 percent tax on team payroll's above a fixed $84 million threshold—would create a further impediment to the upward drift of salaries. What is most notable here is not the $84 million threshold (which is close to the threshold of the last year of the luxury tax on team payrolls in 1999), but the suggestion that it be fixed, even as MLB's revenues continue to grow—again cause for the Players Association to balk. Of course, it is possible that with the salary-retarding effects of a 50 percent local revenue tax, the $84 million payroll would never be reached.

The third recommendation is also controversial. The commissioner would be able to use any increase in central fund distributions above the $13 million per club in 1999 to make unequal distributions to assist low-revenue clubs. Since the new ESPN contract (2000–05) and the new Fox contract (2001–06) are projected to raise the average annual payout per team to $19.1 million (from $11.6 million during 1996–2000), this recommendation would put a very significant sum at the discretion of Commissioner Selig and, therefore, may be resisted by high revenue clubs. An interesting feature of this recommendation is the panel's suggestion that only clubs meeting a $40 million payroll would be entitled to receive these extra distributions from the Commissioner—throwing a bone to the Players Association.

As pointed out in Fair Ball, it would make more sense for the $40 million threshold to be applied as an average over the preceding three to five years than on a year to year basis. Among other things, clubs may choose to pursue a building strategy, yielding a lower payroll initially but a higher payroll as players reach arbitration and free agency eligibility. If the threshold is applied too rigidly, it would not leave clubs the flexibility to pursue different strategies and many clubs would be compelled to squander salary payouts.

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[6] First Union Securities & Merrill Lynch, Offering Memorandum. YANKEE NETS. Senior Notes due 2007. February, 2000.

[7] In the 1999 plan, the first 75 percent of the revenue sharing pool was redistributed equally but the next 25 percent went only to clubs with below mean revenues.

The report also recommends changes in baseball's draft system. The baseball reverse-order, amateur draft was introduced in 1965. Almost over night the (old) Yankee dynasty was ended and baseball entered an era of unprecedented competitive balance that lasted until the mid-1990s.

The selection of amateur players through the draft was an important leveler. In the 1990s, however, the selection of amateurs began to favor the high-revenue teams, contributing to a greater imbalance on the playing field. Why?

For starters, revenue disparities across the teams exploded. These inequalities were then reflected in vastly different player development budgets across the teams. In 1999, for instance, the Yankees spent over $20 million on their player development system, while the Oakland Athletics invested less than $6 million. This means that the Yankees, by offering far more handsome signing bonuses, have greater success in signing foreign players who come to the U.S. as free agents.

Only U.S. residents and Puerto Ricans (and foreigners enrolled at U.S. universities) are subject to the reverse-order amateur draft. All other foreign ballplayers come to the U.S. as free agents. Today, foreign-born players represent over one-fifth of all major leagues.

After the collapse of the former Soviet trade bloc and the ensuing meltdown of the Cuban economy, the supply of ballplaying Cuban defectors began to expand. Agents like Joe Cubas exploited the opportunities and inspired still more defections. More or less simultaneously, free agency rules in Japanese baseball along with government conscription regulations in Korea were liberalized, and many Asian ballplayers tested their market value in this country.

As the foreign free agent market developed, agents sought out players throughout the Caribbean and elsewhere. Agents staged foreign player workouts for prospectively interested teams. At first, these workouts were attended by scouts from most teams, but as the signing bonuses grew, the number of represented teams diminished. Low revenue teams gave up ahead of time.

Complicating matters, as the signing bonuses for foreign free agents increased, U.S. amateurs, comparing their potential to the foreign players, demanded and often received higher bonuses. On occasion when the player didn't get the bonus he sought, he would refuse to sign and the drafting team in essence would lose a draft pick. Rather than lose draft picks, low revenue teams began to skip over the top prospects, anticipating they wouldn't be able to sign them. The high revenue teams, though lower in the drafting order, started to get better domestic, as well as foreign, talent. Thus, the process of signing new talent, which had promoted competitive balance since 1965, today seems to be exacerbating the imbalance in baseball.

Thus, the Blue Ribbon Panel, again echoing Fair Ball, sensibly recommends that baseball's amateur draft be made worldwide. The Players Association, however, is likely to resist, arguing that the solution to the exploitation of U.S. ballplayers (by allowing the drafting team to have monopoly bargaining rights over the player for a year) is not to extend this exploitation to foreign players. Instead, the Players Association will seek a modification in the draft process in exchange for internationalizing the draft. They might, for instance, demand that two teams be allowed to draft each player, so that there will be some competitive pressure in determining the player's signing bonus without forcing the player to sit out a year.

Why does the players' union get to bargain over baseball's draft rules? After all, minor leaguers are not part of the union. The union won an arbitration ruling back in 1992 that made the draft a subject of mandatory bargaining on the grounds that free agent signings were compensated by draft picks. Thus, an element affecting the demand for free agents was connected to the draft process.

Since the system of free agent compensation was originally sought by the owners as a way both to lower demand for free agents and support greater balance on the field, it is possible that the owners could now seek to remove the compensation rules. Without such rules, in turn, draft procedures may no longer be a mandatory bargaining subject.

Alternatively, the owners may seek another concession from the players. If owners were to accept the reform that two teams can draft one player, they would probably ask in return that the drafting teams be given permanent signing rights. The drafted player would then have an initial choice between the two teams with whom to sign, but he could not re-enter the draft after one year and be selected by different teams. Such a rule should improve the chances that lower revenue teams could actually sign the players they draft.

In any event, internationalizing the draft will require the cooperation of foreign baseball leagues and the harmonization of labor market rules. It would also reduce or eliminate the incentive for individual teams to run training camps in other countries—a function that MLB may need to assume on a centralized basis.

The Blue Ribbon Panel report also recommends allocating "a disproportionate number of picks to chronically uncompetitive clubs." This ideal is fine as long as the extra draft picks are not a reward for free riding. That is, there should be a string attached here too: teams must meet the minimum payroll in order to qualify for extra picks.

The panel's final proposed change in drafting procedures is to alter MLB's so-called Rule 5 draft. The annual Rule 5 draft allows clubs to pick any player from another club who is not on the club's 40-man major league roster and has been in professional baseball for four years. The picked player must then stay on the 25-man major league active roster for the entire year or be returned to his original club. This rule prevents a team from stocking talented players in their minor league system, helps to spread talent more evenly among the teams and opens up opportunities for minor leaguers. The panel wants to add a wrinkle to this draft: each year, prior to the Rule 5 draft, allow the bottom eight clubs to pick any player not on the 40-man roster of any of the top eight (playoff) clubs without the restriction that the chosen player must remain on the major league active roster of the selecting club for the entire next year.

These proposed changes in baseball's drafting system are very constructive. If implemented, they will significantly promote competitive balance without engendering conflict among the owners over additional revenue sharing and, hopefully, without stirring dissent from the Players Association because of new artificial salary restrictions.

The last major recommendation of the panel is that MLB "should utilize strategic franchise relocations to address the competitive issues facing the game." In plainer English, MLB should allow teams in cities that won't build new ballparks with public funds to move to cities that will. Thus, the Montreal Expos might move to Northern Virginia and play in a new stadium with a larger, more enthusiastic market. Not only would the Expos be more likely to become and remain a competitive team, but the team would generate two to four times as much revenue and eliminate the need for subsidies from the high-income franchises.

Although MLB has allowed, indeed encouraged, teams to threaten to move in order to elicit public subsidies over the last three decades, MLB has not allowed a major league team to actually move since 1972. It seems reasonable enough that MLB should allow a team to move from a dormant to a vibrant market and this may well be the best solution in an imperfect world.

But how will MLB decide when a market is dormant? Most baseball markets are made, not born. Fans respond to competitive teams and charismatic players. Indifferent or ineffective ownership can turn any potentially strong market into a bust. Should the fans in such a city be penalized for the ownership's ineptitude?

Remember that MLB is a monopoly and it is largely this special circumstance that gives it the power to extract public stadium subsidies to support its wealthy owners and players. The economic solution to the public subsidy/team relocation problem is straightforward: break up the monopoly. Make MLB divest into two competing business entities while allowing the two entities to collaborate on rule setting and postseason competition. With two separate businesses, it would be inconceivable that Washington, D.C., the nation's political capital and seventh largest media market, would be without a franchise for 28 years. Just as MacDonalds and Burger King race to be the first to open a new store at any promising street corner, each of the two baseball leagues would try to exploit any potential market before the other. The result is that worthy host cities would not have to go begging for teams. Moreover, cities like New York might find themselves with multiple franchises and the relative revenue advantage of George Steinbrenner's Yankees would quickly diminish if not disappear altogether.

The problem with this plan is political. Such a divestiture policy has about as much chance being implemented as Pat Buchanan had to be elected president. So we must look for second best solutions and the Blue Ribbon Panel's proposal points in a useful direction.

Whereas the further leveling of the playing field is desirable, the trick comes in implementation. Apart from the legal issue of violating the property rights of high revenue teams and the economic issue of diminishing player value, revenue sharing invokes the core question of ownership incentives. If revenue sharing is done out of actual revenues, then the incentive to build a winning team is blunted. Owners on the lower half of MLB's economic ladder may opt to minimize payrolls and ride the revenue transfers to profitability. It is clear that several teams have already pursued such a strategy and this is another factor behind baseball's present imbalance problem. That is, ironically, MLB's 1996 revenue sharing plan may have exacerbated rather than ameliorated competitive inequality on the playing field.

It is also true that several automatic forces may produce a greater leveling in the coming years. The inequality engendered by new stadiums will recede as the novelty effect on revenue begins to wear off and Pittsburgh, Cincinnati, Milwaukee, San Diego and other teams benefit from new facilities. Also, the growth of national media revenues by some $6 million per year per team will provide a modest equalizing effect.

For these and other reasons, it is necessary for baseball to proceed with much care in introducing additional revenue sharing. It is possible that errant reform will produce more harm than good.

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