Restrictive Labor Practices in Baseball: Time for a Change?

By Janice M. Westerfield

When pitcher Jim (Catfish) Hunter was declared a free agent last December, he entertained offers from 23 of the 24 major league teams in the hottest bidding war in baseball history. He finally signed a five-year contract with the New York Yankees for a record $3.75 million. Never before had an experienced player of Hunter's caliber—he pitched the Oakland A's to three consecutive World Series Championships and is considered by many experts to be baseball's top pitcher—enjoyed free-agent status.

Competitive bidding for Hunter's services spotlighted one of professional baseball's unique labor practices—the player reservation system which can keep a player from selling his skills to the highest bidder. Sports entrepreneurs defend the noncompetitive labor practices by claiming that professional teams are unique and note that the courts have exempted them from antitrust action. They argue that while an ordinary business is untroubled if it wipes out its competitors, a professional baseball team is in jeopardy if the financially weaker teams fail. The reason is that even the stronger teams need a league in order to operate profitably. Thus, while it's desirable to compete as hard as possible on the playing field, it's unwise for teams to compete against each other in a business manner, say the owners.

Team owners contend that baseball's restrictions on the labor market can be justified on other grounds as well. Their major contention is that the player reservation system equalizes team playing strengths and this is in the "public interest." Otherwise, the richer teams would garner the bulk of playing talent and lopsided games would result. Team owners also suggest that these noncompetitive practices help "maintain the integrity of the game" by assuring fans that players are loyal to their team. Finally, by preventing bidding wars (except in unusual circumstances), the weaker teams have greater financial security.

After Catfish Hunter declined the Philadelphia Phillies' offer of $2.6 million, Phillies President Ruly Carpenter said the rejection underscored the need for retaining the "reserve clause" in baseball. Does it? Or do the terms of the contract simply show the extent to which Hunter was previously paid less than his value to the team? An economic approach provides a much-needed dimension to the debate on the player reservation system and helps sports fans make some sense out of the industry's chaotic business conditions. In other words, who gains what under the current setup?

THE RESERVE CLAUSE

Organized baseball's exemption from antitrust action has encouraged collusion among the teams, allowing them to draw up explicit business rules for the conduct of the sport. (For more on baseball structure, see Box 1.) Perhaps the most important set of rules in baseball concerns the player reservation system. This system includes rules governing the acquisition of new players, the promotion of players from minor to major leagues, and movement of players from one major league team to another.

Specifically, the reserve clause in each player's contract gives a team the exclusive right to buy the player's services for the next season. In practice, it often ties a player to a team for his entire career, because under a reserve clause exclusive rights are retained by the team whether the athlete plays or not. A player may be transferred from one team to another only if the team owning his services releases him from his contract or allows another team to buy his contract and negotiate with him.

BOX 1

THE ECONOMICS OF BASEBALL STRUCTURE

Organized baseball acts like a "cartel." It restricts competition in business practices, regulates entry, and divides markets among teams in the two major leagues and several minor leagues. The antitrust exemption has encouraged teams to collude and to set up explicit business rules which are codified and open to public scrutiny. Output is limited by restricting the number of league franchises and the location of the teams. The establishment of territorial rights for each team prevents expansion teams from raiding another team's home territory. In addition to receiving income from admissions and concessions, teams benefit from the sale of radio and TV rights. Here again, rules limit competition in selling the industry's product. Leagues control the right to national broadcasts and each team holds exclusive rights to broadcast locally all home games that are not part of the league's national package. Professional baseball also has a complex set of rules dealing with interteam competition for players, the industry's most important production input. The rules governing the acquisition of new and veteran players are at the heart of the dispute on sports business practices.

In a cartel, cooperative behavior among the teams will assure greater profits than a competitive system. Yet, a particular team may increase its profits if it can convince all other teams to abide by the rules of the cartel and then itself cheat on the regulations.

BOX 1 (Continued)

For instance, a team could benefit by negotiating with players on other teams as long as the other teams do not reciprocate. To prevent secret negotiations with individual players, baseball has a "no-tampering" rule against bargaining with a player whose contract is owned by another team. Such rules, which are difficult to enforce, require serious penalties to dissuade member teams from violating them.

Organized baseball displays another cartel feature—a lack of innovation. Changes on most matters require a three-quarters majority vote in the league. Thus, on issues affecting both leagues, a mere four teams can thwart a change in major league rules. The voting rules make it difficult for organized baseball to respond to opportunities for profitable innovation. Critics claim the lack of innovation partially accounts for baseball's inability to keep its share of the total sports dollar.

Perhaps because the cartel has been slow to adjust to external changes eroding profitability, the sketchy financial data available indicates that few baseball teams are big moneymakers. The Los Angeles Dodgers and the New York Mets are probably the most profitable; they are located in large metropolitan areas and draw around two million fans apiece. In the American League the Baltimore Orioles, winner of the World Series in 1970, earned only $345,000 after taxes that year on revenues of $4.6 million—and their profit figure was believed to be the highest in the league. In 1970, a survey revealed that only half of the major league baseball teams netted an after-tax profit or broke even.* However, because of the special tax advantages of sports enterprises, such as depreciating the value of player contracts, baseball teams may actually be more profitable than the accounting figures would suggest.** Current profit figures also ignore capital gains resulting from increases in the value of the franchise.

*"Who Says Baseball Is Like Ballet?" *Forbes*, April 1, 1971, p. 30.

**Tax shelters traditionally open to sports enterprises may be threatened by a U.S. District Court ruling last February against the Atlanta Falcons. The Court reduced the allowable depreciation reductions on football player contracts and ruled that TV rights could not be depreciated. The uncertainty of tax advantages from depreciation may reduce the market value of pro sports franchises.

The player reservation system is intended to limit competition among teams for the services of players. The agreement not to compete is the key to the reserve clause's effective operation. If a particular team tries to negotiate with a player to see if he is interested in changing teams, it runs the risk of being severely penalized. By restricting the right of a player to negotiate with another team while under contract to his current team, the "no-tampering" rule deprives the player of his freedom to choose his prospective employer or place of employment. The officially stated reason for the reserve rule is that it "inhibits the moneyed clubs from acquiring all of the best talent."[1] Supporters contend that the reserve clause does tend to equalize the strengths of the poor and

[1]U.S., Congress, House, Committee on the Judiciary, Subcommittee on Study of Monopoly Power, *Organized Baseball*, 82d Cong., 2d sess., 1952, p. 105.

the rich teams. This rule is also said to ensure the honesty of the game by bolstering public confidence that players are competing to win. It is feared that a player negotiating with another team would lack the "winning spirit"—this could raise suspicions of a fix if he muffed an easy play.

DRAFTING

New Player Draft. Central to the player reservation system is the new player draft. This draft was established in 1965 when the baseball cartel realized that bonuses to amateur players were costing teams big money. Here's how it works. The names of the eligible amateur players are pooled and the teams draft the negotiation rights in reverse order of the won-lost standings. The lowest-ranking team then gets first pick of the new player draftees. The new player and the team that has drafted him have six months to negotiate a contract. During this period, the player may not negotiate or make a deal with any other team. If the player and the drafting team cannot reach an agreement, then the player returns to the pool to be drafted by a second team in the "secondary phase" of the draft. The six-month bargaining period in baseball puts the player in a slightly better negotiating position than in football where if a player cannot conclude a contract with the assigned team, he has no alternate means for reaching an agreement to play for another team. The limited time period in baseball also gives some encouragement for a team to offer a signing bonus.

The arguments advanced for the new player draft are essentially those given for the reserve clause. The primary purpose was to end the competitive bidding through bonuses which were transferring wealth from the club to the players. By drafting in the reverse order of standing, it was also argued that the weaker teams would benefit relatively more than the stronger ones.

Veteran Player Draft. Although a major league baseball team is limited to carrying about 25 players on its active roster, it may have up to 15 more players under exclusive contract. These "protected" athletes play for minor league teams affiliated with the parent club. Players *not* on the protected roster of major league teams may be reallocated by means of a veteran player draft at the end of each season. This draft attempts to equalize playing strengths by limiting direct competition for the player. First, teams draft players in reverse order of standings for a stipulated amount, currently set at $25,000. This means a team cannot bid for a player's services by promising a higher salary or offering to place him on its protected roster. Second, the drafted player must be placed under exclusive contract, thereby releasing one of the protected players and making him eligible to be drafted by other teams. Like the draft, limits on the number of protected players are alleged to equalize team strengths. Team owners argue that, otherwise, championship teams would keep too many players under exclusive contract, thereby depriving lower-ranked teams of playing talent.

"Waiver Rule." Sales of player contracts are also limited by the "waiver rule." A team wishing to sell a player's contract must "clear waivers"—that is, each team in the league must have the opportunity to buy, at a fixed price, the exclusive rights to bargain with the player. Acquisition rights for waivered players are tendered in reverse order of team standing. In baseball, even after a player is waived, he may not be free to negotiate with teams in the other league. The waiver rule is another means of restricting competition for veteran players.

THE RESERVATION SYSTEM: WHO BENEFITS, WHO DOESN'T?

Economic logic and statistical studies say a great deal about the alleged benefits of the player reservation system. First of all, economic theory suggests that artificial mechanisms designed to promote equal playing strengths among teams are unnecessary. Indeed, it runs against the economic interests of a team to become overloaded with star players. Second, even if equalizing team strengths were desirable (perhaps because team owners don't behave as economic logic would predict), the player reservation system fails to perform this task. The reason is that it doesn't prevent the most talented players from being transferred from one team to another.

The player reservation system does have some economic effects, however. It increases the financial security of team owners, for example. It does so principally by keeping player salaries lower than they would otherwise be. Financial losses to the players are considerable. Lower salaries mean that prospective players devote less time and energy to developing batting and fielding skills. The overall level of individual team quality is lower as a result.

Playing Strengths. In their support of the player reservation system, team owners view the necessity of a mechanism for equalizing playing strengths as axiomatic. Economic theory, however, suggests it's highly unlikely that the financially strong teams would buy up *all* the star players if released from the reserve clause. Any team that tries to buy up the most capable players will reach a point where it will forego the services of an additional talented player. This happens because a team has an incentive to win by a close margin rather than by clobbering its opponents. Close contests with an element of uncertainty are considered more exciting and more likely to attract fans. If lopsided sports contests discourage attendance, it will not be in the best economic interests of a strong team to buy up all the talent in the league. At some point, therefore, a strong team will be willing to pass up the services of another topflight player and see him play for another team.[2]

Supporters of the reserve system may counter that team owners may receive psychic satisfaction from hoarding expert players. Hence, the current setup is required to prevent unequal distributions of talent. Economists retort that the reserve clause and player drafts are unequal to this task. The reason is that resources tend to move toward their most highly valued uses (given well-defined property rights and small costs of exchange). The player reservation system fails to prevent player transfers from one team to another for cash or other players. If a player's services are worth most to the team having exclusive rights to his contract, then no other team will want to pay the current owners enough to bid him away. But, if the player's services are valued more highly by another team, and if the costs of transferring the player's contract are small, the team that values him most will bid the contract away from the current owners. Thus, each player will play for the team which gets the highest return from his service—the same as in most other professions operating in a free market. Player sales and trades also probably offset any equalizing effects that the new and veteran player drafts have on team strengths.

[2]A rich team will not purchase an unlimited number of talented players. This point is well explained by Simon Rottenberg in his classic article, "The Baseball Players' Labor Market," *Journal of Political Economy* 64 (1956): 301. "Beyond some point—say, when a team already has three .350 hitters—it will not pay to employ another .350 hitter. If a team goes on increasing the quantity of the factor, players, by hiring additional stars, it will find that the total output—that is, admission receipts—of the combined firms (and, therefore, of its own) will rise at a less rapid rate and finally will fall absolutely. At some point, therefore, a first star player is worth more to poor Team B than, say, a third star to rich Team A. At this point, B is in a position to bid players away from A in the market. A's behavior is not a function of its bank balance. It does what it calculates it is worthwhile to do; and the time comes when, in pursuing the strategy of its *own* gains, it is worthwhile, whatever the size of its cash balance, to forego the services of an expert player and see him employed by another team."

Thus, in theory, the distribution of playing talent between rich and poor teams is not affected by the reserve clause.[3]

In practice, even if a player reservation system is in effect, imbalances between weak and strong teams persist. The reserve rule has not frustrated those teams willing to outbid others for players. Franchises in areas with high drawing-potential (usually big cities) have a stronger economic base and are apt to develop stronger teams than franchises in low population areas. A look at the evidence indicates that teams in high drawing-potential areas win more than their share of championships. If team strength is measured by pennants won, from about 1900 to 1970 the four largest cities in the American League won 49 out of 68 pennants while the four largest cities in the National League won 41 out of 70.[4] These big city teams tend to bid some star players away from the low drawing-potential teams, which are usually based in smaller cities that generate lower "live gate" and TV revenues for the home team.

The limited evidence available also suggests that the distribution of playing talent is probably much the same with or without a player reservation system. A recent study was made of three four-year periods, beginning with the years 1876–79 before the reserve clause became operative in 1880 on a partial basis. During both of the successive four-year test periods, the reserve clause was extended to more and more players, yet the study uncovered no significant differences in talent distribution for the three periods.[5] The quality of the teams was measured by such factors as the number of years that teams won successive championships and the average percentage of games won (won-lost record) by a championship team. Similarly, more recent data for baseball, football, basketball, and hockey show no consistent relationship between talent distribution measures and the presence or absence of a free-agent draft.[6]

Financial Security. Although the player reservation system doesn't appear to equalize playing talent among the rich and poor teams, owners of the poorer teams do receive greater financial security. First of all, the reserve clause reduces their labor costs compared to competitive bidding. Secondly, it assures financially weaker teams exclusive rights to an asset that can be sold to richer teams. Thus, by financially aiding teams in less populous markets, the league becomes more viable.

Similarly, the new player draft is a subsidy of sorts to the weaker franchises. Since the teams draft in reverse order of standings, the weaker teams get preferential treatment. Likewise, the veteran player draft redistributes income toward the financially weaker teams. These teams purchase players from the powerhouse teams at a below open-market price; thus, the drafting teams gain wealth equal to the excess of the market price over the draft price. The rich teams apparently think it worth their while to support

[3]Under a reserve clause, a player will theoretically be transferred to the team for which he generates the most revenues. For example, suppose a player is worth $75,000 to the Philadelphia Phillies and $100,000 to the Atlanta Braves, and his contract is currently held by Atlanta. The Phillies will be willing to pay a maximum of $75,000 (and probably less if they hope to gain revenues by paying the player less than his value to the team). However, as long as the Braves are willing to top that figure, the player will remain on their roster.

Conversely, if the player is currently playing for the Phillies, both teams will benefit by transferring the contract to the Braves at any price between $75,000 and $100,000. At any price over $75,000, the Phillies will benefit from the sale of the contract while the Braves will be willing to pay as much as $100,000.

[4]James Quirk and Mohamed El Hodiri, "The Economic Theory of a Professional Sports League," in Roger G. Noll, ed., *Government and the Sports Business* (Washington: The Brookings Institution, 1974), p. 48.

[5]Michael E. Canes, "The Social Benefits of Restrictions on Team Quality," in Noll, op. cit., p. 85.

[6]Ibid., p. 88.

the league by bearing a larger share of the financial burden. Of course, the player reservation system is only one of many schemes which could be employed to redistribute income among league members. For example, a change in the way gate receipts are shared could also affect a redistribution of income.

Player Salaries. While the owners of the poor teams may receive some benefits relative to the rich teams, the limitations to labor mobility inherent in the player reservation system clearly reduce the financial return to the player. In fact, *the redistribution of income from the players to the owners is the primary economic effect of the player reservation system.* The player can only negotiate with the team holding exclusive rights to his contract; he cannot choose from among several bids in a free labor market where he would be paid his full value to the team. Thus, a differential can exist between the player's salary and his "worth" to the team. The cash sale of players from one team to another suggests that players receive less than they would under a competitive bidding system. The player reservation system simply gives the money acquired in exchange to the team owners instead of to the player.

The redistribution of income from players to owners leads to several secondary effects. First, lifetime player earnings are less. Not only is the player's salary lower in his first contract than it would be under competitive bidding, but he cannot expect to make up the current shortfall at anytime during his playing career. Before the free-agent draft, when big bonuses were common in the competitive bidding for new players, the bonus would at most equal the value today of the wages lost in the future as a result of the player reservation system. Thus, the player did not suffer reduced lifetime earnings. With the institution of the new player draft in 1965, direct price competition was restricted in the market for amateurs and bonuses fell considerably.

One study that estimated the extent of the wages lost under the reserve clause for three qualities of players found that baseball players suffer a financial loss of "considerable magnitude."[7] Over their playing careers, average players are paid about 20 percent of the net revenues they generate for the team. (Net revenues remain after training and other costs have been subtracted.) Star players are paid about 15 percent of the net revenues they generate. Ironically, only mediocre players are paid more than the revenues they generate over their shorter playing careers.

Team Quality. Since the restrictive rules in the baseball labor market reduce player salaries, skill levels and team quality are reduced over the longer haul. Amateur players can be expected to devote less effort to bettering their skills if they face lower potential earnings. Since prospective players are free to choose alternative earning possibilities, lower player salaries will also reduce the quantity of baseball talent supplied, and those amateur players who actually do become professionals will have invested less resources to sharpen their natural skills.[8] Thus, the fans as well as the players suffer under the current setup.[9]

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[7]Gerald W. Scully, "Pay and Performance in Major League Baseball," *American Economic Review* 64 (1974): 929.

[8]Disagreement exists over whether society benefits from higher average skill levels and higher salaries for baseball players. For instance, a player paid a free market salary may feel his income has increased enough for him to substitute some leisure time for time spent in his playing career. Also, if star players receive huge salaries, amateurs are encouraged to devote more effort to sharpening their skills. For those who don't make it, some people think the effort is wasted.

[9]An argument can be made, however, that a competitive system promotes too high a level of team quality because it does not account for external factors which affect other teams in the league. For a further explanation, see Canes, op. cit., p. 94.

MODIFYING THE PLAYER RESERVATION SYSTEM

Supporters of the player reservation system claim that it equalizes team strengths. But economic logic and evidence indicate that the system hardly affects the distribution of playing talent. So, the primary benefit of restrictive labor practices in baseball may well be a fiction. At the same time, the player reservation system imposes heavy costs on the players in terms of lower wages and reduced employment choice. Thus, it may be worthwhile to consider alternative ways to achieve the secondary benefits of the reserve system—greater financial security for weaker teams—so that the reserve clause can be modified or eliminated. The player association is already moving against the player reservation system. Suits have been filed in the courts to place baseball's restrictive labor practices under Federal antitrust laws. (See Box 2.)

Some alleged benefits of the reserve clause—more equal playing strengths, greater financial gains for the weaker teams—could be met by dividing income more equally among the teams. For example, if the present 80–20 (American League) gate-sharing arrangement between home and visiting teams were altered to share revenues more equally (as in football), financial disparities among the teams would be reduced. That way a team based in a smaller population area of, say, 1.5 million would receive a larger proportion of revenues on the road and would increase its profits even if the team drew the same number of fans at home. Alternatively, it has been estimated that equal revenue sharing between home and visiting teams would reduce the number of fans needed at home to maintain the same profits, so that the minimum viable size for a franchise area would be reduced from 1.9 to 1.5 million population.[10] An even-gate split would benefit several teams by making them more financially viable. Similarly, a team's monopoly on local broadcasting revenues in its home territory—the visiting team does not receive a share of the revenues from local broadcasts—could be modified to divide income more evenly with the same effects.

If owners as a group can realize the financial benefits of the reservation system in some other way, modification of these labor practices should be easier to accomplish. One suggestion is to combine the reserve clause with some kind of an option clause. In football, an athlete who plays out his option takes a 10 percent pay cut from his previous year's salary (which may amount to a higher percent cut of what he would have earned if he were a good player). He remains with the same team for the current season and then is a free agent who can negotiate with any other team in the league. A fairly liberal option rule in baseball could go a long way toward remedying the restrictive employment choices and the reduced lifetime earnings for the player offered by the reserve clause.

U.S. Senate hearings on the proposed basketball merger in 1972 resulted in several conditions which had to be met to obtain an antitrust exemption. Some of these could be suggested to the player association for collective bargaining in baseball. The proposed bill (which eventually died) provided that veteran player contracts were to have a negotiable duration, after which the player was free to switch teams. This proposal goes one step further than the option clause by eliminating it altogether. Another proposal would retain the amateur draft but obligate the rookie to play for the team that drafted him for at least two years, then free him to negotiate with any team. Both these measures would increase player mobility and free employment choice.

Federal legislation may well modify the player reservation system. In 1972, legislation was introduced in Congress to establish a Federal commission to regulate drafting procedures and other labor practices involving

[10] Roger G. Noll, "Attendance and Price Setting," in Noll, op. cit., p. 131.

BOX 2

ASSAULTS ON THE RESERVE CLAUSE AND OTHER RESTRICTIVE LABOR PRACTICES

Baseball has been exempt from antitrust laws ever since *Federal Baseball Club* v. *National League* (1922), when the Baltimore club of the Federal League sued the American and National Leagues for attempting to buy out the members of the Federal League. The Supreme Court ruled that baseball games were exempt from antitrust because they were "purely state affairs"; interstate commerce was not the "essential thing." Thus, baseball was not subject to Federal jurisdiction over interstate commerce and the Baltimore club was not harmed "by reasons of anything forbidden in the antitrust laws." Although numerous court challenges have been made to this ruling, it has never been overturned. When professional football was placed under Federal antitrust laws (*Radovich* v. *National Football League*), the Court was pressed to make the rulings on football and baseball consistent and confessed that "were we considering the question of baseball for the first time upon a clean slate we would have no doubts" about nonexemption.*

The Court justified the continued exclusion of baseball from antitrust laws by passing the buck to Congress, which had shown little inclination to bring baseball under these laws in the preceding years, and concluded that the most appropriate way to redress the situation (if indeed, redress is called for) is "by legislation and not by court decision." Congressional reluctance to close the loophole stirred another player, outfielder Curt Flood, to turn once again to the courts. However, by 1972, the dependence of baseball structure on the legal precedents proved too difficult to overcome, and Flood lost his challenge. The majority holding reaffirmed the earlier court rulings, citing the "positive inaction" of Congress, which "allowed those decisions to stand for so long . . . and has clearly evinced a desire not to disapprove them legislatively."**

Recently hopes for a reversal were raised from another quarter. Last December a Federal judge handed down a decision concerning former quarterback Joe Kapp which could have implications for the reserve systems governing baseball, basketball, and hockey. The "Rozelle Rule" allows the football commissioner to determine compensation when an athlete plays out his option—that is, plays one more year at 90 percent of his previous salary and becomes a free agent—and accepts an offer from another team. This rule was declared an unreasonable restraint and illegal because by setting a high indemnity, the commissioner can block a player's employment choice. The decision also found that the "no-tampering rule," which operates much the same way in football as in baseball to prohibit players under contract to a team from negotiating with other teams and to provide penalties for violators, unduly restricts free employment choice. It

**Radovich* v. *National Football League*, 352 U.S. 452 (1957).

***Curtis C. Flood* v. *Bowie K. Kuhn et al.*, 407 U.S. at 283–84 (1972).

BOX 2 (Continued)

is this latter finding which antitrust enthusiasts hope can somehow be broadened to include baseball.

Meanwhile, assaults on the web of restrictive labor practices are coming from another Quarter—the player association. Although the Major League Players Association, the union, represents only players on the roster of the major league teams, it has the potential to affect labor relations greatly. Collective bargaining has resulted in major gains for baseball players, notably by allowing them to have a lawyer present when negotiating a contract. Baseball also has a three-man arbitration board to settle disputes such as that between Catfish Hunter and Charles O. Finley, owner of the Oakland A's. One member represents the players union, a second represents the major league owners, and the third is an impartial arbitrator. The board gives the players an advantage over the "one-man rule" policy in football that was found illegal in the Kapp case. Although the baseball players association has tried to place the player reservation system on the agenda for collective bargaining, so far the owners have refused to negotiate at all on the reserve system. However, the 1973 baseball agreement calls for a three-year study of ways to revise the player reservation system and will serve as a basis for negotiations in 1976.

restriction on competition, but the bill died in committee. The proposed bill to set conditions under which an antitrust exemption would be granted for the proposed basketball merger also hints at the possibility of government action. In any case, after the player association, Congress may be the most likely source of change in business practices in the sports labor market.

A LOOK AT THE FUTURE

Economic analysis of the baseball labor market sheds some light on the effects of the present system and possible ways of modifying it. Economic theory does not support the claim that the player reservation system reduces the disparity between the strong and the weak teams. Playing talent is probably distributed much the same with or without a reserve clause. Team owners benefit from the restrictive labor practices because income which would otherwise be paid to the players is kept by the owners. Financially weaker teams also benefit from the player sales which transfer funds to them at the expense of the richer teams. However, the financial costs to the players are quite high under the player reservation system. Studies have shown that players are paid considerably less than the net revenues they generate for their team. Since playing skills respond positively to salary increases, lower player salaries inhibit the amount of prospective skills produced and result in lower team quality as well.

Because of the magnitude of the economic losses suffered by the players, chances are that the player reservation system will be modified in the near future, either through efforts by the player association, through court suits, or, as a last resort, by Congressional action. The crucial test will probably come in 1975–76 when the player association and the team owners negotiate a new agreement. One way out might be to combine a more equal distribution of revenues for the weaker teams with an option clause or long-term contract for the players.

THE FED IN PRINT...

a quarterly feature in this section is on vacation. The cumulative index of Fed monthly reviews, compiled by Doris Zimmermann, Philadelphia Fed Librarian, returns in the September issue.

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