Collusion in Major League Baseball

In November 1990, one of Major League Baseball's (MLB) most controversial episodes in its troubled labor history concluded with a $290 million settlement. The settlement required teams to pay players $280 million with Major League Baseball Players Association (MLBPA) governing the distribution of damages to players. How Major League Baseball reached this point is grounded in peculiar history. Baseball historians divide the history of the MLB into distinct eras. These eras represent shifting bargaining power between the players and owners over a 150-year period.

Era 1

The early days of baseball were characterized by an absence of any institutional structure that limited bargaining by either players or teams. Some star players— termed revolvers— switched teams frequently. In some cases, a would change teams from one day to the next. Some apocryphal stories claimed that some players switched teams in the middle of a game. Typically, players profited much more than owners did in this era. As a result, both teams and leagues were fragile with many quickly coming into and out of existence. Leagues made some attempts to limit pay, but rival teams and leagues would quickly emerge to bid away the best players. And often, more successful players and owners would simply ignore the rules. Teams that employed revolvers won more games, but often did not make a profit. Teams that did not pay premiums for the best players usually initiated a downward spiral of losing followed by attendance declines, which ultimately led to team dissolution. Indeed, few teams lasted more than two years. Player salaries showed large fluctuations. As new leagues and teams were formed to compete with existing leagues, player salaries went up, but then declined as teams and leagues folded.

Era 2

Eventually, enough owners realized that unless they cooperated in controlling player wages, that few, if any, teams or leagues would have long-term sustainability. \ critical turning point was the formation of the National and American Leagues. In both leagues, the owners vested more centralized authority in the league. This centralization increased dramatically after the 1919 World Series scandal where several players were later convicted of having taken bribes to alter the outcomes of games.

Judge Kennesaw Mountain Landis was appointed Commissioner of Baseball and given broad powers over the American and National Leagues as well as all affiliated minor leagues and teams.

The fundamental rule that governed bargaining between players and teams during this era was the reserve cause. The reserve clause was first used in 1879 but by the early 1900s it was universal in Major League contracts. A 1960s version of the reserve clause follows:

"On or before January 15 . . . the Club may tender to the Player a contract for the term of that year by mailing the same to the Player. If prior to the March 1 next succeeding said January 15, the Player and the Club have not agreed upon the terms of such contract, then on or before 10

days after said March 1, the Club shall have the right... to renew this contract for the period of one year (Helyar, 1994, p. 36). "

The explicit meaning of the reserve clause was that teams could not negotiate or contract with players who were presently under contact with a team or who had previously been under contract to a team within the last year However, the reserve clause for much of this era was perhaps universally understood to mean that a team could not negotiate or contract with a player whose previous team had not sold or otherwise renounced its rights to employ the player. In other words, most thought that the reserve clause gave a team the exclusive right to employ a player in perpetuity. Thus, a player unhappy with his present team could not offer his services to other teams. Teams could, however, buy and sell the contracts of players with each other, a practice known as trading players.

There were some early legal challenges to the reserve clause. Several courts split on the constitutionality of the reserve clause, but a Federal Appeals court ruling that it was constitutional was upheld by a 1922 Supreme Court decision. In the decision. Judge Oliver Wendell Holmes famously opined that baseball was exempt from anti-trust laws because "baseball are purely state affairs." Following the Supreme Court decision, there was little to no contesting of the reserve clause for over four decades. With few good for them and for baseball more generally. The owners instituted other rules besides the reserve clause that weakened players' bargaining power. Players were not allowed to have agents represent them. Also, contract terms were not public. As a result, many players were told that they ranked much higher in pay on their teams than was actually the case. For example, some players were told that they were among the highest paid players on their teams when they were below the median salary of their teammates. Even some of baseball's greatest stars had little bargaining power. The Philadelphia Athletics tried to cut Jimmie Foxx's salary in 1933 after he achieved baseball's triple crown (the most home runs, highest batting average, and most runs batted in the same year). Lou Gehrig did not receive a pay increase a year later after winning the Triple Crown. Ralph Kiner received a 25% pay cut from the Pittsburgh Pirates in 1953 even though he had led the National League in home runs for seven straight years. Branch Rickey, the president of the Pirates, reportedly told Kiner, "We finished last with you. We can finish last without you." Many players, even stars such as Yogi Berra, held second jobs in the off-season. Few players held out for higher salaries, and when they did, they received little public sympathy.

Remarkably, there were no organized efforts to change the reserve clause and representation rules during this era. The collective actions that players took during this time were centered on inconsequential things such as not requiring the players to purchase their own uniforms. Late in this era, the players did organize more effectively, but their primary goal was to create a pension fund for players.

Era 3

Even though the players' share of baseball's economic pie had been decreasing for decades, the players made little attempt to challenge the owners superior position.

A number of catalysts occurred in the 1960s to begin pressure for change. The players hired

Marvin Miller, formerly a chief economist for the powerful Steelworkers union. Miller immediately saw what the players had long failed to see. In his view, baseball players were the most oppressed workers that he had seen in the United States. During the 1960s, both the NFL and NBA were challenged by new leagues, the AFL and ABA respectively.

Overnight, players were being offered unheard of salaries to jump leagues. This caused both the NFL and the NBA to respond with dramatic salary increases. Seeing their peers in other professional sports receive higher pay led the players to challenge the status quo in baseball's labor relations. The owners' aggressive response to players who spoke out only increased the spread of militancy among players.

Through a series of court cases and arbitrator decisions, the reserve clause was defined to mean that teams did not control a player's rights in perpetuity. An arbitrator ruled in December 1975 that a player became a free agent one year after the expiration of his contract. As a response of the arbitrator's decision, the owners and players reached a series of Collective Bargaining Agreements where players could either enter salary arbitration or free agency (the freedom to sign with any team) after a specified number of years in the Major Leagues. Miller designed a two-tier system of arbitration and free agency with the intent that there would be a limited number of free agents in any given year. His reasoning was that many teams competing for a few free agents would drive the price of free agents much higher than if there were many free agents. The high salaries of free agents would then serve as comparisons for arbitration cases. Thus, the free agency would drive up the salaries of not only free agents but those who went through salary arbitration as well.

Other rule changes further strengthened the players' bargaining position. New rules allowed players to have agent representation. Salary information was made widely available and was available to players and agents in salary negotiations. Average salaries went from $19,000 in 1967 to m average of $371,000 in 1985 (see Table 1 and Figure 1). The minimum salary went from $6,000 to $60,000 during the same period (see Table 1 and Figure 2).

Collusion

The spectacular increase in player salaries was a source of considerable tension for owners. Broadcast revenues generally increased at the same rate as player salaries during this period, but some teams were struggling financially. Some baseball executives were especially concerned that, collectively/ teams had over $50 million in financial obligations to players who could no longer play due to injury. Long-term contracts were also a concern. Some team executives claimed that players were less productive after signing such contracts.

These tensions led some baseball executives to urge the need for self-restraint in signing free agents. Baseball's new commissioner, Peter Ueberroth was particularly aggressive in encouraging owners to be more conservative in both signing free agents and signing players to long-term contracts. Though Ueberroth was careful to have attorneys caution owners against collusive behavior, considerable pressure was exerted on teams to not sign free agents. Many teams adopted policies against long-term contracts and signing free agents. In the off season between 1985 and 1986, the free agent market was considerably less friendly to players than in

previous years. Even some of baseball's biggest stars found that other teams were not interested in signing them. Remarkably, only four of the 35 free agents that year signed with other teams. Those four players were journeymen who were no longer wanted by their previous team. In February 1986, the players' association filed a grievance that came to be known as Collusion I.

The situation did not improve for free agents between the 1986 and 1987 seasons. The teams began to share with each other their intentions concerning free agents from their teams. For example, a team might share with other teams which of their free agents they intended to re-sign. Players argued that this was a signal to other teams not to offer a contract to that player. As with 1986, only four free agents switched teams in 1987. That year also marked the first time in the free agency era that average player salaries had not increased from one year to the next. The MLB.PA responded by filing a second grievance, known as Collusion II.

In September 1987, an arbitrator ruled that, in part because of the precipitous drop in offers of contracts to free agents/ the owners had been guilty of collusion between the 1985 and 1986 seasons. However, the arbitrator did not decide on the amount of damages at that time. The owners took this as a signal to offer contracts to more free agents after the 1987 season. Many of these offers merely matched the offers of the player's current team. Other offers for free agents were for less than the player's offer from his current team. Not surprisingly, the players filed a third grievance in January of 1988, termed Collusion III. By this time/ however, the owner's coordination was showing some cracks. Some owners pursued desirable free agents out of self-interest and were slow to inform their peers about their intentions and actions. Team profitability had improved also. The ease of economic pressures led some teams to increase their focus on winning, which led to more competition for free agents.

Subsequent arbitrator rulings hastened the breakdown of collusion among the owners. In October 1989, an arbitrator awarded the players $38 million to settle Collusion II. Later arbitrators added $64.5 in damages for Collusion Ill followed by the final settlement in November 1990 of $280 million. Fay Vincent, who was commissioner at that time, condemned the practices of the owners during the previous years. Many observers have claimed that relations between the players and the owners were severely damaged by the years of collusion and contributed greatly to a major strike in 1994 that canceled the last months of the season as well as the playoffs and World Series.