Baseball lockout ends with agreement failing to resolve players' demands

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Last Thursday, Major League Baseball (MLB) and the MLB Players Association (MLBPA) agreed to a new five-year collective bargaining agreement (CBA), paving the way for a full 162-game season beginning on April 7. Four series that were previously canceled will be incorporated into a newly revised scheduled.

This agreement marks the end of a 99-day lockout that began with the expiration of the previous CBA on December 1, 2021, and became the second longest work stoppage in baseball history, behind only the 1994-95 players' strike which lasted 232 days.

Negotiations did not actually begin until January 13, the 43rd day of the lockout, and only five more brief sessions were held prior to the February 16 scheduled start of spring training.

The 30 MLB owners, most of whom are billionaires, were intent on continuing the lockout even at the risk of losing games, knowing that they could afford a short-term revenue loss but believing that most players could not. The average major league career lasts only 3 to 4 seasons.

Driven by continual increases in television revenues and soaring ticket prices from newly built luxury stadiums financed largely with public funds, baseball revenues have increased by 40 percent over the last 10 years and reached a record $10.7 billion in 2019, the last year before the pandemic. Profits over this period have driven team values up hundreds of millions and, in some cases, billions of dollars.

However, during 2021, the last year of the prior CBA, the combined payroll spent by all 30 Major League Baseball teams decreased by 4 percent compared with the last full season, 2019. Today's payrolls are at 2015 levels.

The players were seeking a series of improvements to the economic structure of the sport, with a goal of significantly increasing the salaries of younger players, improving competition among teams to prevent "tanking," curbing service time manipulation, which limits free agency, and directing a much greater share of baseball's increasing revenue to its players.

The final agreement was approved unanimously by all 30 owners and was accepted by the player representatives by a 26-12 margin. All 8 of the players' executive subcommittee voted no, but 26 of 30 player team representatives voted to approve the agreement. A simple majority, or 20 votes, was required for the new agreement to pass.

The executive subcommittee was composed primarily of veteran star players, who have guaranteed contracts in excess of $100 million. This group included many of the league's highest paid players, like Max Scherzer, Gerrit Cole, Francisco Lindor and Marcus Semien. The player representatives are elected by each team and vote according to the consensus of each team.

With 62 percent of players earning less than $1 million last year, including most players with less than six years of service, the owners took advantage of the income disparity between these two player voting groups. They did this by substantially raising the minimum salary that impacted most players from $570,500 in 2021 to $700,000 in 2022 and that will top out at $780,000 in 2026, the final year of the agreement.

The first-year increase of 23 percent was directed to these lower paid players who had received a total pay increase of only 12.4 percent during the entirety of the last five-year CBA.

This increase in minimum salaries, however, will only cost the owners an estimated 1 percent in revenue. More importantly, it serves to undermine the players' other demands concerning free agency and salary

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thresholds, that would have cost the owners a much more significant share of their revenue.

The new agreement maintains the same free agency rules that require MLB players to be on a big league roster for six years before they are allowed to become free agents. Once a player has become a free agent, he then has the right to negotiate a salary with any team of his choosing, that generally results in much larger contracts.

In the National Basketball Association (NBA) and the National Football League (NFL), players need to play for only four years before they become free agents. And unlike football and basketball, sports in which players usually go straight from college to the pros, baseball players often spend several years in the minor leagues, mostly being paid close to or even below the minimum wage before getting called up to the major leagues.

Consequently, many players in baseball do not get the right to freely negotiate for their services until they are in their late 20s or early 30s, ages at which many players are already past their prime or out of baseball altogether. Since most players' major league careers are shorter than six years, the majority of players never make it through the "lean" years to be in a position to receive a big free agency payoff.

MLB is also unique in that players are not entitled to specified percentages of league revenues, and teams are not required to spend a minimum amount on payroll. The new agreement does little to change this structure.

In the NFL, for example, organizations must spend at least 48 percent of league revenue on player compensation, and individual teams will have a salary cap of $208.2 million in 2022. They are also obligated to spend at least 89 percent of the cap on salaries over the course of several seasons, which effectively creates a salary floor of roughly $185 million.

MLB revenues rose 15 percent from $9.03 billion in 2016 to $10.37 billion in 2019, while the average player salary remained flat at $4.38 million, indicating that players were taking home a smaller portion of league revenue. The average salary figures, however, are distorted by record-breaking contracts from just a handful of superstars. The median salary of an MLB player fell from $1.65 million in 2015 to $1.15 million in 2021, a decline of over 30 percent. Over half of all players earn at or near the league's minimum salary, since they are ineligible for either free agency or arbitration.

While MLB does not have a salary cap that limits what teams can spend on players, it does have a luxury tax that penalizes teams that spend more than a certain amount on payroll. The MLBPA had proposed an increase in the threshold from its present $210 million to $245 million in 2022 and topping out at $273 million by 2026.

The new agreement, however, only increases the threshold to $230 million this year and tops out at $244 million in 2026, the final year of the agreement. Consequently the increase that the players had demanded for the first year of the agreement will still be $1 million below the amount of the threshold when the agreement ends and will be nearly $30 million less than what they had demanded for final year of the agreement.

In a feeble attempt to prevent "tanking," that is, the practice of intentionally losing to obtain the highest future draft choices (in American professional sports, the teams with the worst records are given the first choice on signing top amateur prospects, ostensibly to promote parity within the league), MLB will now institute a draft lottery with the top six picks being chosen through a lottery process. All non-playoff teams will have a chance at securing one of those picks, but the lottery will be weighted so that the three teams with the worst records will have a much greater chance of being selected.

To further increase revenue the playoffs will now include 12 teams instead of 10. By adding two teams this is expected to add an additional $85 million in television revenue.

Lastly, player uniforms and helmets can now include advertising patches and decals. Through this marketing ploy that will transform players into athletic billboards, teams are expected to receive between $10 million to $30 million in additional advertising revenue.

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