

# Salary Caps in Professional Team Sports

*Salary caps and payroll taxes may seem beneficial to owners, but are their effects more symbolic and cosmetic than fundamental? Labor relations models in basketball, football, baseball, and hockey have certain commonalities.*

BY PAUL D. STAUDO HAR

The use of salary caps, limiting how much teams can pay their players, is a relatively new development. Basketball was the first sport to cap salaries, in the 1984-85 season, and a similar restriction went into effect in football in 1994. In other sports, salary caps were contested in both the 1994-95 baseball strike and the 1994-95 lockout in hockey. In these sports, unions have been able to fend off acceptance of a general cap, although “luxury taxes” were put into effect on baseball team payrolls exceeding specified amounts, and hockey now has a salary cap for rookies.

Labor relations models in the four sports have certain commonalities. Since 1967, when the initial team sports collective bargaining agreement was reached in basketball, owners and players have experimented with ways of sharing power and dividing revenues. Today, all sports have a form of free agency, allowing players to sell their services to other clubs after a certain period of time has elapsed. Salary caps have emerged as a quid pro quo to free agency. That is, while players are allowed to sell their services to the highest bidder, the salary cap restricts how much can be paid to players on a team as a whole, thus preventing labor costs from rising beyond the stated limits.

This article examines the nature and operation of salary caps in basketball and football, and the controversies and arrangements over the issue in baseball and hockey. Because salary caps can be viewed as a counterpart to free agency, there is particular interest in how these two features interact. Salary caps are also viewed in the broader context of owners versus players, and their effects on collective bargaining.

## **Basketball**

Like the other sports, basketball went through its “dark ages” for player salaries during the years of owner application of the reserve clause. Players are drafted by National Basketball Association (NBA) teams that have an exclusive right to sign the player they select. Once a drafted player signs a contract he becomes the exclusive property of the club. The initial use of the reserve clause was to bind a player to a particular club for life, unless the player was sold, traded, or put on waivers. With a right to continued use of the players’ services, clubs had monopsony control—they were the only buyer in the market—and had little incentive to pay high salaries.

While players made several legal challenges to the reserve clause, it was not until the mid-1970s that the courts

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**Table 1. Basketball average salaries, percentage changes, salary caps, and ratios, 1984-85 through 1997-98**

Season	Average salary	Average salary percentage change	Salary cap (thousands)	Ratio of salary cap to average salary
1984-85 .....	\$340,000	-	\$3,600	10.6:1
1985-86 .....	395,000	16.2	4,233	10.7:1
1986-87 .....	440,000	11.4	4,945	11.2:1
1987-88 .....	510,000	15.9	6,164	12.1:1
1988-89 .....	601,000	17.8	7,232	12.0:1
1989-90 .....	748,000	24.5	9,802	13.1:1
1990-91 .....	1,034,000	38.2	11,871	11.5:1
1991-92 .....	1,202,000	16.2	12,500	10.4:1
1992-93 .....	1,348,000	12.1	14,000	10.4:1
1993-94 .....	1,558,000	15.6	15,175	9.7:1
1994-95 .....	1,800,000	15.5	15,964	8.9:1
1995-96 .....	2,027,261	12.6	23,000	11.3:1
1996-97 .....	2,189,442	8.0	24,300	11.1:1
1997-98 .....			25,000	

SOURCE: 1984-85 through 1994-95, National Basketball Association; 1995-96 through 1997-98, National Basketball Players Association.

partially lifted the restriction.<sup>1</sup> In 1976, a new collective bargaining agreement was reached between the NBA and the National Basketball Players Association (NBPA) that eliminated the reserve clause option from nonrookie contracts. However, there were some restrictions on free agency set forth under the agreement. One was the establishment of a right of first refusal system (beginning in 1980), whereby a team about to lose a free agent could match the offer made by another club, and thus retain the player. Another was an arrangement for compensating teams that lost free agents. As determined by the commissioner of basketball, teams could be awarded players, draft choices, or cash upon losing a free agent.

In succeeding collective bargaining agreements free agency continued to become more liberal. The compensation rule was jettisoned in 1980, and the right of first refusal, which replaced the compensation rule, was modified in favor of the players. However, in part due to the difficulty of adjusting to the higher compensation levels for players that free agency wrought, many clubs were not doing well financially. They wanted relief through a salary cap.

Gary Bettman (Commissioner of the National Hockey League) devised the idea of a salary cap in the NBA.

In the early 1980s Bettman was the number three man in the NBA, behind then Commissioner Lawrence O'Brien and current Commissioner David Stern. In July 1982, O'Brien and Stern sat down with Lawrence Fleisher, counsel for the NBPA, and its president Bob Lanier, to work out what is considered one of the pioneering collective bargaining agreements in all of sports.<sup>2</sup> Negotiations were difficult, particularly because of the proposal to moderate salaries. There was even talk of a strike. Although the 1982-83 season opened without an agreement, the players made it clear that the deadline for reaching the agreement was April 1, shortly before the playoffs would begin. The owners would have been especially vulnerable to a strike at that time, because a sizable share of their revenues comes from post-season play.

The talks gained momentum when the owners offered to share league revenues with the players, as an offset to the salary cap. The revenue sharing proposal was initially set at 40 percent, then raised in negotiations to 50 percent, and finally to 53 percent by the owners, who agreed to guarantee this percentage of gross revenues to the players. This overcame the final barrier in negotiations, and the agreement was reached on March 31, 1983, establishing the first salary cap in sports.

The salary cap began with the 1984-85 season and was initially set at \$3.6 million. Because five teams were already paying more than \$3.6 million, their payrolls were frozen. Although the cap was scheduled to rise to \$3.8 million in 1985-86, it actually rose to \$4,233,000. The reason the actual figure was higher is that the scheduled figure was only a minimum cap, while the actual figure represents the maximum cap of 53 percent of revenues. The amount of the salary cap over the years is shown in table 1.

*Change and impact.* A distinction can be made between a hard salary cap and a soft salary cap. Basketball's cap was and remains a soft cap. The reason is that there are loopholes that have developed in the operation of the system that make it possible for teams to exceed the cap. In a hard salary cap, exceptions would not be allowed and teams could not spend more than the cap.

Under the 1983 agreement, teams were allowed to retain at any price one player who became a free agent, and that player's salary would not count against the cap. Thus, a team could re-sign its own free agent player regardless of the impact that the signing would otherwise have had on the cap. If a hard cap had existed, all salaries would count toward the cap, irre-

spective of whether they involved a team's own free agent.

Another feature of the 1983 agreement was that teams that were at or over the salary cap could sign rookies to 1-year contracts for only \$75,000 for first-round draft choices, and \$65,000 for lower picks. The problem this caused was that teams that had not reached the level of their cap could sign rookies for much more than capped teams. For example, Akeem Olajuwon signed with the Houston Rockets for \$6.3 million over 6 years, while Charles Barkley signed with the Philadelphia 76ers for \$75,000. Houston was under the cap, while Philadelphia was at or over it. This put Barkley and other rookies drafted by capped teams at a considerable disadvantage. Indeed, one of these players, Leon Wood of the 76ers, challenged the salary cap in Federal court on antitrust grounds. His suit was dismissed, however, because the salary cap had been established through collective bargaining between the owners and players' union, and the court determined that the antitrust law did not apply.<sup>3</sup>

In negotiations for the 1988 agreement, the NBPA sought to eliminate the salary cap as well as the college draft and other features that it contended were in violation of antitrust law by restricting player movement in the labor market. The union used the interesting tactic of threatening decertification. The courts had held in *Wood* and other cases that as long as a bargaining relationship existed, the antitrust laws would not apply. Thus, reasoned the NBPA, by decertifying itself there would no longer be a bargaining relationship and thus the league's antitrust immunity would disappear.

But the union did not need to move ahead with its decertification plans, because an agreement was reached. The agreement addressed a key union concern by reducing the draft from seven rounds to three in 1988, and to just two rounds thereafter. With fewer rounds in the draft, there would be more free agent rookies, although ex-

perience showed that teams signed few players beyond the second round.

The salary cap continued to be based on players receiving a guaranteed 53 percent of gross revenues. It remained a soft cap in that teams were able to re-sign their own free agents without affecting the cap. A case in point involved Chris Dudley of the New York Nets, who was a free agent. Despite receiving offers of about \$3 million from other teams, Dudley signed a 7-year \$11 million contract with the Portland Trail Blazers, which paid him only about \$790,000 in the first year. The catch was that the contract allowed Dudley to become a free agent after his first year with Portland. He would then be able to sign a big contract as Portland's free agent and thus circumvent the salary cap. This is what in fact happened, as Portland tore up Dudley's old contract after a year and signed him to a multiyear deal at \$4 million a year. The league saw through the ruse and Commissioner Stern went to court to try to prevent it, unsuccessfully as it turned out.

Negotiations for the 1995 agreement brought some interesting developments. The union was still determined to eliminate the salary cap, college draft, and right of first refusal. But little progress occurred in negotiations and the NBPA agreed to play the 1994-95 season without a replacement contract. In frustration, the union also resuscitated its old decertification ploy in an effort to clear the way for a favorable antitrust decision in court. This time the union nearly went all the way, but in the end voted against decertification.

The vote came as a result of a complex series of events that began with the abrupt resignation of the union's executive director, Charles Grantham, who had replaced the retired Fleisher. Simon Gourdine (ironically, a former deputy commissioner of the NBA) took over the union and negotiated a tentative agreement. But several players, notably Michael Jordan and Patrick Ewing, sought to decertify the union. One of the things the proposed agreement would have done was turn the

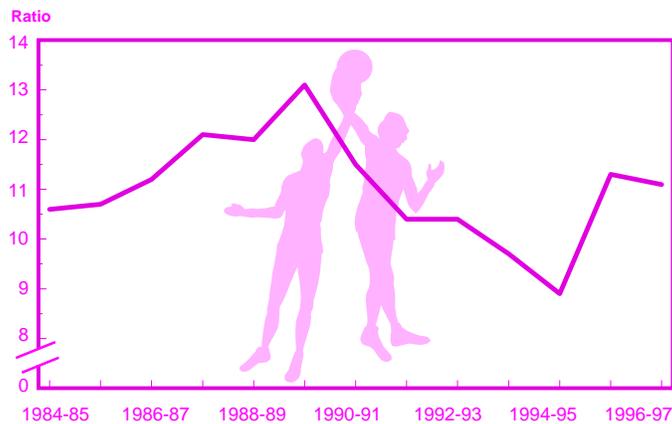
salary cap from soft to hard, something the players and their agents viewed negatively. When the tentative agreement was modified to return to a soft salary cap the players voted against decertification and ratified the agreement.

The new 6-year 1995 agreement raises the players' guaranteed share of NBA revenues from 53 percent to 57.5 percent. It also broadens the base on which the 57.5 percent is applied, by inclusion of luxury box revenues. In addition, contract language tightens up owners' revenue reports, a problem area that had recently come to light. In 1990, Chicago Bulls owner Jerry Reinsdorf had sued the NBA for trying to limit the number of Bulls broadcasts on the television superstation WGN. (The suit was settled in 1996.) Evidence came to light during the case that led to the discovery, by the NBPA, that some owners were underreporting revenues that determined the salary cap.

The soft salary cap allows a team to sign a replacement for an injured player at up to 50 percent of the injured player's salary without this additional salary counting against the cap. But another change in 1995 works in favor of the owners. This is a cap on all rookie salaries, which is based on average salaries received by the picks at each draft position over the past 7 years plus an increase of up to 20 percent.

Has the salary cap influenced salaries? Average salaries of first-year players have been significantly affected; those of other players less so. Were NBA revenues to level off or decline, the effect of the cap on salaries would be greater. Because there has been a steady growth of revenue to the league since the cap was instituted, this has not been the case. In fact, the increasing revenues have enlarged the pool of money that the players share. Accordingly, the salary cap has risen but the ratio of average salaries to the cap has not moved in tandem. (See table 1 and chart.) The soft nature of the cap and the numerous exceptions have blunted its impact.

Ratio of salary cap to average salary, NBA, 1984-85 through 1996-97



So, as salaries were rising between 1984 and 1989, the cap rose even more; and then over the next 5 years average salaries outpaced the cap. Since 1994, however, the cap has shown phenomenal growth as average salaries increased more modestly. Table 1 also shows the rapid rise in NBA salaries. How much greater salaries would have risen without the cap cannot be determined, but the difference would probably not be great.

In theory, the salary cap works to prevent high-paying teams from signing quality free agents from other teams. As a result, it is expected that low-paying teams which are under the cap could sign free agents and thus improve their chances of winning games. However, as Roger Noll notes, a player's current team can match any outside team's free agency offer, and most players would rather stay with a good team than switch to a weak one.<sup>4</sup> Therefore, Noll indicates that the salary cap doesn't help the weak teams so much as it prevents wealthy teams from competing for each other's players.

### Football

With the exception of baseball, football's labor relations have been the most tumultuous of any sport. Strikes in 1982 and 1987 were among the longest and hardest fought in sports history, and typified the acrimonious relationship between the National Football League (NFL) and the NFL

Players Association (NFLPA).

The 1987 strike was a particularly bitter defeat for the union, because its attempt at revising the free agency system fell short. From 1977 to 1987, only one free agent, Norm Thompson of the St. Louis Cardinals, signed with another club; voluntary movement of players was virtually nonexistent. The reason for this was the compensation required for teams that signed free agents. For example, in 1988, the Washington Redskins signed Wilbur Marshall, a free agent player from the Chicago Bears for \$6 million over 5 years. While there was no formal agreement in effect at this time (it expired in 1987 and was not renewed), the prior free agency compensation rules continued to be applied by the parties. Consequently, the Redskins had to give up their first-round draft choices in 1988 and 1989 as compensation to the Bears, a stiff penalty that discouraged future deals.

Having to cope with this kind of system was frustrating for the players because it kept salaries relatively low. The union was outmaneuvered by the league in 1987, when the owners brought in replacement players to act as strikebreakers. Defeated at the bargaining table, the union turned to the courts for relief, challenging the restraints on free agency and other non-competitive practices as violations of antitrust law. The union lost this suit,

known as the *Powell* case,<sup>5</sup> because, even though the collective bargaining agreement had expired, there was a "labor exemption" insulating the owners from the antitrust law. That is, the existence of a union representative was all that was needed for a labor exemption, even if that representative was at impasse in negotiations with the league.

As a result of this decision the NFLPA decertified itself as the players' representative, hoping that in the absence of a bargaining relationship the league could not insulate itself from application of the antitrust law. To try to counter this tactic, the NFL liberalized the free agency system through what was called "Plan B." Although the revised system allowed all but 37 players on a 47-player team roster to become free agents, it continued to restrict the best players from movement.

Eight players, led by Freeman McNeil of the New York Jets, filed an antitrust suit challenging Plan B. A jury found that the plan was too restrictive.<sup>6</sup> Although the league considered the possibility of appealing the decision, it instead sought to resolve the problem of its vulnerability to antitrust violation by renegotiating a contact with the union. In 1993, after 5 years of impasse, the parties reached a new collective bargaining agreement.

*New agreement.* The 1993 agreement provides a compromise that benefits each side, with the union getting real free agency for the first time and the league obtaining a salary cap to protect the owners from excessive spending. Originally set up as a 7-year agreement, it was extended in 1996, adding 1 year and possibly 2 more at the option of the union. Thus, the agreement could extend through 2002.

Rules on free agency currently allow players with 4 years of NFL service to change teams without restriction when their contracts expire. Table 2 shows free agent signings from 1993-96, for unrestricted free agents who signed with a new club as well as those

**Table 2. Football free agent signings and average salaries, 1993-96**

Year	Unrestricted free agents	Prior year average salary (thousands)	New average yearly salary (thousands)	Average salary percentage change
1993 .....	276	\$535.3	\$995.6	85
1994 .....	293	567.9	710.6	25
1995 .....	298	459.0	713.9	56
1996 .....	245	702.0	1,064.0	52

NOTE: 120 free agents signed with new teams in 1993, 140 in 1994, 184 in 1995, and 125 in 1996.

SOURCE: National Football League Players Association.

**Table 3. Football signing bonuses, 1990-96**

Year	Average salary (thousands)	Players' average signing bonus <sup>1</sup> (thousands)	Starters' average signing bonus <sup>1</sup> (thousands)
1990 .....	\$363	\$133	\$206
1991 .....	423	212	340
1992 .....	490	224	307
1993 .....	664	458	841
1994 .....	636	595	1,045
1995 .....	718	906	1,625
1996 .....	795	1,064	2,146

<sup>1</sup> Average for all players receiving a signing bonus.

SOURCE: National Football League Players Association.

who signed with their old team. On the whole, the table shows significant increases in the salaries of free agents.

Not all players are pleased with free agency, depending on their circumstances. For instance, teams have cut some veteran players to make room for other players. This partly results from salary cap limits on how much teams can spend on players. Under free agency, more money may go to fewer players. If a team pays out large amounts to sign a few star free agents, this leaves less money for paying the remaining players. The latter may wind up making the league minimum salary (\$196,000 in 1997 for players with 3 to 5 years of experience and \$275,000 for veterans of 5 or more years).

Players together receive a minimum of 58 percent of designated gross revenues in salary guarantees under the 1993 agreement. This minimum has not come into play, however, as the players have received about 65 percent of revenue. The salary cap became effective in 1994 at 64 percent, meaning that teams could spend no more

than 64 percent of their revenue on salaries. The cap was 63 percent in 1995, 63 percent in 1996, and 62 percent in 1997. For each of the 30 NFL teams the salary cap was about \$41.5 million in 1997. Calculation of the cap is shown in the box.

There is also a rookie salary cap. It is designed to limit the salaries paid to rookies to the 1993 level of pay, about \$2 million per team. However, the rookie salary cap rises with designated gross revenues, so that it had grown to about \$3 million in 1997.

While the salary cap in football was originally intended to be a hard cap, it has turned out thus far to be a soft one.

**Football Salary Cap Formula**

Projected designated gross revenues, all teams  
\$2,255,510,000

x 62 percent = \$1,398,420,000 players' share

÷ 30 clubs = \$46,614,000 per club

- \$5,160,000 for collectively bargained benefits = \$41,454,000 salary cap

SOURCE: National Football League Players Association

The loophole that has developed in football is the signing bonus. A signing bonus is not counted fully against the salary cap in the year in which it is paid. A team is allowed to prorate the signing bonus over the life of the contract for purposes of the salary cap. Thus, even though a player might actually receive a \$4 million signing bonus in 1997, only \$1 million would count against the cap for that year if a 4-year contract was signed.

The practice of signing bonuses is more common in the NFL as a result of the salary cap and the need to avoid it. Table 3 shows the growth in signing bonuses since 1990. This growth has far outstripped the increase in average salaries, indicating that a larger proportion of total compensation is paid in signing bonuses for free agents and rookies.

Evidence of the soft nature of the NFL salary cap can also be seen in table 4. It shows that for 1994, 1995, and 1996 as a whole, if a club spent up to the cap limits it would have averaged an outlay of \$37.5 million per season on salaries. Shown in the table

**Table 4. Football actual expenditures, 1994-96<sup>1</sup>**

Team	Actual expenditures (millions)
Green Bay .....	\$37.5
Tampa Bay .....	37.7
Cincinnati .....	38.5
Pittsburgh .....	39.0
Minnesota .....	39.1
Atlanta .....	39.5
Seattle .....	39.6
Houston <sup>2</sup> .....	40.0
San Diego .....	40.7
Philadelphia .....	40.8
Indianapolis .....	41.2
Chicago .....	41.3
Baltimore .....	41.3
Arizona .....	41.3
Washington .....	41.6
Detroit.....	41.6
St. Louis .....	42.1
Denver .....	42.1
Miami.....	42.2
Kansas City .....	42.9
San Francisco .....	43.2
New Orleans .....	44.7
New York Jets.....	44.7
Oakland .....	45.1
New York Giants .....	45.4
Buffalo .....	46.0
New England .....	46.3
Jacksonville .....	47.1
Carolina .....	47.4
Dallas .....	49.8

<sup>1</sup> The average salary cap for the three year period was \$37.5 million. The proration of signing bonuses over the contract term raises compensation above the salary cap.

<sup>2</sup> In the 1997 season, Houston moved to Tennessee.

SOURCE: National Football League Players Association

are the actual amounts spent by each team. All NFL teams equaled or exceeded the average salary cap for the 3-year period. It was the prorating of signing bonuses over the length of player contracts that enabled teams to spend more for players than the cap limits.

Free agency and the salary cap are linked in a timetable. Free agents can begin testing the market on February 14 of each year. On June 1, teams begin to release players whose high salaries make them expendable. These are usually players good enough to contribute but too old to have many years left. Prior to June 1, the remaining

prorated shares of those players' signing bonuses would have been counted against a team's salary cap. But by releasing the players before June 1, clubs are able to count some of the money against the salary cap for the following year, which would be a higher cap.<sup>7</sup>

In contrast to baseball and basketball, football player contracts are usually not guaranteed. Releasing a veteran player thus creates room to maneuver under the salary cap. There is virtually continuous action in signing players from February until August, when the final training camp cuts are made.

Some players win from this timetable, while others lose, depending on whether there is a glut or shortage of players at a particular position. It is not uncommon for a veteran who was once paid, say, \$2 million a year to be offered only the league minimum the following year. In contrast, some free agents who are playing at positions where there are few available stars may increase their salaries several times over. General managers of clubs have always needed player assessment skills, but today these must be combined with astute cap management.

**Baseball**

Baseball does not have any form of salary cap, although it does have a luxury tax on clubs that annually spend beyond a certain amount on salaries. This tax may have an effect on salary growth, as discussed below, but so far it has been minor.

The first discussion of the salary cap in baseball negotiations occurred in 1989-90. The owners proposed a cap that would limit the amount of salary any team could pay to players. Those with 6 years or more of experience would still be free agents. However, they would not be signed by a team if doing so would put the team over the salary cap.<sup>8</sup> Also part of the owners' proposal was a guarantee to the players of 43 percent of revenue from ticket sales and broadcast contracts, which was about 82 percent of the owners' total revenue.

The purpose of the proposed salary cap was to protect teams in small markets, like Milwaukee and Minnesota, from having their talented free agents bought up by big-market teams in New York and Los Angeles. In theory, teams in large cities would be unable to dominate the free agent market because the cap would limit the players they could sign. Also, because teams spend large sums in developing young players, a salary cap would allow them to retain more of their young players because free agency opportunities would be more limited.

Although negotiations began in November 1989, nothing much happened until February 1990, shortly before spring training was to begin. At that time Commissioner Fay Vincent began to sit in on negotiations. He made some formal proposals that were released to the media, and this had the effect of causing the owners to drop their demands for radical change, including the salary cap. A 32-day lockout by the owners ensued, with the main issue in the dispute being salary arbitration eligibility.

*1994-95 strike.* Baseball's 4-year collective bargaining agreement expired on December 31, 1993. A year earlier the owners had reopened the contract for negotiations on salaries and the free agency system, but no real proposals were made by either side. Baseball, as other sports, has its big-market and small-market teams and economic disparities between clubs. Baseball teams share money from the sale of national broadcast rights equally. But, until recently, they kept all sales from local broadcast rights. The New York Yankees in a typical year receive about \$50 million from local television broadcasters, while some of the small-market teams get just a few million dollars for their rights.

As a result, the owners decided to share some of their local revenues, but only if the players accepted a salary cap. So the salary cap issue reemerged in 1994, rather oddly tied to revenue sharing among the owners themselves. The owners also proposed to share

**Table 5. Major league baseball average salaries 1984-97**

Year	Average salary	Percentage change
1984 .....	\$329,408	-
1985 .....	371,157	12.7
1986 .....	412,520	11.1
1987 .....	412,454	( <sup>1</sup> )
1988 .....	438,729	6.4
1989 .....	497,254	13.3
1990 .....	597,537	20.2
1991 .....	851,492	42.5
1992 .....	1,028,667	20.2
1993 .....	1,116,353	8.5
1994 <sup>2</sup> .....	1,168,263	4.6
1995 <sup>2</sup> .....	1,110,766	-4.9
1996 .....	1,119,981	.8
1997 .....	1,380,000	23.2

<sup>1</sup> Less than 0.5 percent

<sup>2</sup> Due to players strike in 1994-95, actual salary was less.

SOURCE: Major League Baseball Players Association

their revenues with the players, 50-50. Depending on the players' share under the 50-50 split, no team could have a payroll of more than 110 percent or less than 84 percent of the average payroll for all teams.<sup>9</sup> The Major League Baseball Players Association (MLBPA) rejected the salary cap and other major proposals. This set the stage for a strike that began on August 12, 1994 and lasted for 232 days—the longest strike ever in professional sports .

Shortly after the strike began the owners shifted their position from a salary cap to that of a luxury tax. The idea was to tax a club's payroll if the total payroll exceeded a certain limit. The MLBPA viewed this proposal as a salary cap in disguise, because clubs would resist signing free agents if in addition to higher payrolls they would have to pay a tax as well. Still, the union didn't totally reject the idea and various proposals were exchanged in the next several months.

In the end, the union accepted a modified version of the luxury tax. The tax is levied on team payrolls exceeding \$51 million in 1997, \$55 million in 1998, and \$58.9 million in 1999. The tax rate is 35 percent in 1997 and 1998 and 34 percent in 1999. No luxury tax is levied for 2000, and the players can elect to extend the agreement to 2001 without a tax. The

tax revenues go into a pool together with monies from a new 2.5 percent tax on player salaries plus some local broadcast revenues from wealthy clubs. The pool is then distributed to 13 small-market teams.

Final luxury tax compilations are made on December 20 for each year the tax is in effect. It appears that several teams will be taxed at the 35 percent rate on payrolls above \$51 million. Thus, the Yankees with a payroll in 1997 of about \$61 million, would pay about \$3.5 million in tax. This is not expected to deter salary growth. Shortly after the agreement was reached, the Florida Marlins committed \$89.1 million to sign 6 free agents, the biggest spending spree in baseball history; and in 1 week in December 1996, 14 clubs committed a total of \$216 million to 28 free agents.

The luxury tax system is so new in baseball that it will be some time before its impact can be evaluated. The early returns indicate that it is having little if any effect on average player salaries, which increased by 23.2 percent in 1997. (See table 5.) On the other hand, it is interesting to note that the highest paying clubs in baseball in 1996 and 1997 (the Yankees and the Baltimore Orioles) both reduced their payrolls, from \$67 million to \$61 million for the Yankees, and \$62 million to \$58 million for the Orioles.<sup>10</sup>

There was greater compression toward the median salary as teams with lower payrolls generally increased salaries. This was apparently the result of anticipated distributions to these clubs from the revenue sharing pool. Also, the percentage of payroll to total revenue for baseball as a whole fell from 63 percent in 1996 to 59 percent in 1997.<sup>11</sup>

## Hockey

In contrast to football, which for years had rancorous labor relations and then found peace, hockey went in the opposite direction. Until 1992 hockey had never had a work stoppage and enjoyed many years of relatively placid negotiations. But the tide turned with a 1992 strike and 1994-95 lockout. The latter, an especially long and difficult dispute, was caused by disagreement over what was labeled a salary cap issue.

The 1992 strike lasted only 10 days. Ostensibly, it was due to an attempt by the National Hockey League Players Association (NHLPA) to reduce the number of rounds of the player draft and achieve greater opportunities for free agency. In reality, the strike was caused more by a changing of the guard at the union. Shortly before the strike, Bob Goodenow had taken over from Alan Eagleson, who for years maintained a paternalistic relationship with the league. Goodenow, whose style is more confrontational, wanted to convey to the league the message that the union could play rough.

Unfortunately for the union, the NHL had also recently taken on a new leader, when Gary Bettman came over from the NBA. The reader will recall that Bettman was the father of the first salary cap in basketball and it was a concept that he thought might apply to hockey, albeit in a different way. Hockey, like other sports, is plagued with the big-market, small-market dichotomy, which is exacerbated by the relative paucity of television money available to the NHL. The union had stung Bettman and the owners in 1992, interrupting the latter part of the season. Real negotiation by the owners

**Table 6. Hockey average salaries, 1986-87 through 1996-97**

Season	Average salary	Percentage change
1986-87 .....	\$173,000	-
1987-88 .....	184,000	6.4
1988-89 .....	201,000	9.2
1989-90 .....	232,000	15.4
1990-91 .....	263,000	13.4
1991-92 .....	369,000	40.3
1992-93 .....	463,000	25.5
1993-94 .....	558,000	20.5
1994-95 .....	733,000	31.4
1995-96 .....	892,000	21.7
1996-97 .....	981,000	10.0

SOURCE: 1986-87 through 1995-96, National Hockey League; 1996-97, National Hockey League Players Association

to replace the collective bargaining agreement that expired in September 1993 was therefore minimal. The union nonetheless agreed to play the 1993-94 season without a contract. Its patience wore thin, however, when the owners continued to drag their feet. Fearful of another strike late in the season, the owners took the preemptive action of a lockout.

The lockout wiped out 468 games over 103 days, and is the second longest work stoppage in sports. It cost a typical team about \$5 million and came at a time when hockey was enjoying unprecedented popularity.<sup>12</sup> The settlement came late in the season, after it appeared that all was lost.

The salary cap was labeled as the main issue in the conflict, but apart from applying to rookie salaries, the big issue was really a luxury or payroll tax, similar to the focal point of the 1994-95 baseball strike. The idea was to require high-spending teams to contribute to revenue sharing by being taxed on payrolls exceeding certain limits. This is, in a sense, a potential limitation to spending on player salaries but it is a penalty rather than a cap. Teams have no limit on how much they can spend. Although the union made counterproposals on the payroll tax, the lockout ended with the owners dropping the issue.

This is not to suggest that the owners came away empty handed. For the first time in sports a union sustained a clear defeat at the bargaining table and

suffered material retrenchment in power under the collective bargaining agreement. The league gained a cap on rookie salaries at \$850,000 in 1995, rising to \$1,075,000 in 2000. Where the union lost most was on free agency. Players age 25 to 31 can still become free agents, but the system of compensation was increased so that teams that sign free agents experience severe penalties in loss of draft choices. While players under the previous agreement could become unrestricted free agents at age 30, they had to wait until age 32 for the 1994-95 through 1996-97 seasons, and age 31 after that.

Average salaries in the NHL are shown in table 6. From 1991-96, salaries rose at a particularly rapid rate. The owners' attempt to slow salary growth was a major cause of the 1994-95 lockout. Although the NHLPA's power was trimmed as a result of the lockout, salaries have continued their steady rise. This is mainly due to improvement in the overall economic health of the game. Some weak franchises in Winnipeg and Hartford have relocated to better markets in Phoenix, Arizona and Raleigh, North Carolina, respectively. The national network television contract with Fox has also boosted league revenues. Expansion will add four new teams: Nashville, Tennessee in 1998-99, Atlanta, Georgia and Columbus, Ohio in 1999-2000, and Minneapolis-St. Paul, Minnesota in 2000-2001. The new franchises will each pay an \$80

million entry fee, \$30 million more than the Anaheim Mighty Ducks and Florida Panthers paid in the last expansion of 1993. This added money will fuel future salary increases, but future labor conflict has been contained by agreement between the league and union to extend the collective bargaining agreement through September 15, 2004.

### Conclusion

Basketball and football have general salary caps, while baseball has a payroll tax, a kind of cousin to the salary cap that penalizes teams that spend over a certain amount on players' salaries. Hockey has a salary cap for rookies, and no other limits. Rookie salaries are also separately capped in basketball and football. Although hockey does not have either a salary cap or payroll tax for veteran players, its free agency system is relatively weak. Because free agency is viewed as a quid pro quo for forms of salary restraint, hockey may not need anything other than the constraints provided by the labor market.

The findings in this article do not suggest that there is a significant difference between a soft salary cap and a payroll tax as far as placing limits on salary growth is concerned. If a salary cap were enforced as a hard cap, the difference might be greater because this would be a firm and direct limit. Economists know that programs for controlling wages and prices at the national level, sometimes called incomes policies, are not particularly effective. The same might be said of industrial wage and spending controls in sports. Player salaries are mostly determined by market conditions, such as attendance, television revenues, luxury boxes, licensing revenues, league expansion, and stadium deals. Salary caps and payroll taxes may seem beneficial to owners, but their effects appear to be more symbolic and cosmetic than fundamental.

This is not to diminish the salary cap and payroll tax as bargaining issues. Considering the 1994-95 strike and lockout in baseball and hockey,

where these issues took center stage, the matters are of paramount impor-

tance. However, now that the battles have been fought over these issues, one

would hope to see longer periods of labor-management peace.

—ENDNOTES—

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<sup>1</sup> *Robertson v. National Basketball Association*, 389 F. Supp. 867 (1975).

<sup>2</sup> The dynamics of the negotiations and the resulting agreement are detailed in Paul D. Staudohar, *Playing for Dollars: Labor Relations*

*in the Sports Business* (Ithaca, NY: Cornell University Press, 1996), pp. 117-121.

<sup>3</sup> *Wood v. National Basketball Association*, 809 F. 2d 954 (1987).

<sup>4</sup> Roger G. Noll, "Professional Basketball: Economic and Business Perspectives," *The Business of Professional Sports*, ed. by Paul D. Staudohar and James A. Mangan (Urbana, IL: University of Illinois Press, 1991), p. 38.

<sup>5</sup> *Powell v. National Football League*, 930 F. 2d 1293 (1989).

<sup>6</sup> This case is discussed in Paul D. Staudohar, "McNeil and Football's Antitrust Quagmire," *Journal of Sport and Social Issues*, Vol. 16, No. 2, December 1992, pp. 103-110.

<sup>7</sup> Michael Silver, "Cut Loose," *Inside the NFL, Sports Illustrated*, June 9, 1997, p. 99.

<sup>8</sup> Paul D. Staudohar, "Baseball Labor Relations: The Lockout of 1990," *Monthly Labor Review*, Vol. 113, No. 10, October 1990, p. 33.

<sup>9</sup> Paul D. Staudohar, "The Baseball Strike of 1994-95," *Monthly Labor Review*, Vol. 120, No. 3, March 1997, p. 24.

<sup>10</sup> Ross Newhan, "Yankees Find High Salaries Are Taxing," *Los Angeles Times*, April 13, 1997, p. C4.

<sup>11</sup> *Ibid.*

<sup>12</sup> John Helyar, "Newly Cool NHL Skates on Some Thin Ice," *Wall Street Journal*, January 19, 1996, p. B8.