

*Hot Stove Economics: Understanding Baseball's Second Season* by J.C. Bradbury

Interview Questions:

**Why did you write a book about valuing baseball players?**

*The action from Spring Training through the World Series isn't enough to satiate my interest in the game. Like many baseball fans, when the action on the field stops, my mind turns to analyzing how all the wheeling and dealing will improve or harm the teams involved. Being an economist, I was naturally curious as to how the things players do translate into real dollars. It's easy to generalize about whether a trade or signing is good or bad, but I wanted some hard numbers to back up the analysis. I was familiar with the rich economics literature on the subject, so I decided to update and apply it.*

**Briefly explain your method for valuing baseball players.**

*First, I quantified how winning affects revenue. Second, I determined how important the things that players do on the field contribute to winning—this includes contributions on offense and defense. Once had both, I could value players according to how their individual accomplishments translated into revenue through their contributions to winning. This general approach was developed by economist Gerald Scully in the 1970s.*

**In the climate of a recession, how can baseball players possibly be worth the salaries they're getting on the free agent market?**

*Major League Baseball is big business, taking in about \$6 billion dollars a year. Even in the current recession, baseball revenues have continued to grow; only the rate of growth has slowed. Teams are willing to pay their players big bucks because they help their bottom lines. If a team tried to pay a player less than the added revenue that his play would generate, another team would swoop in and offer a higher salary. Baseball players earn tremendous wages because their contributions earn teams more money. And the best teams are willing to offer high salaries, because, on winning teams, wins are increasingly valuable. Compared to the average fan, these salaries may seem excessive, but players' high salaries are simply the reward for possessing rare and valuable skills.*

**In *Moneyball*, Michael Lewis identified several market inefficiencies, such as the undervaluing of on-base percentage and the overvaluing of saves. Did you identify any market efficiencies?**

*Because of the uniqueness of players and teams, simple comparisons between salaries and actual financial worth are difficult. But for the most part, I found the salaries of free agents to be similar to their estimated worth. If there is one area that is out of whack, it's the market for starting pitchers, whom I find to be earning a bit more than their estimated value.*

**What makes a player a good bargain?**

*Young players with very little service time in MLB are extremely valuable, because their salaries are limited by the Collective Bargaining Agreement. A player in his first three years makes what his team says he makes, as long as it's above the league minimum (\$400,000). In his next three years, his salary is governed by arbitration, where his salary will rise, but will still likely be less than his true worth. Older free agents normally don't offer as high a return because they can shop their services to the highest bidder.*

**Though player skills are valuable, at some point isn't a few million a year enough? Wouldn't a cap on player salaries give players a sufficient standard of living and keep the costs of the game in check?**

*If players made less, baseball wouldn't stop making money. The only thing that would change is that a larger share of the revenue would flow to the owners than the players; and, owners are a much wealthier group of individuals than players.*

**But wouldn't a salary cap make the league more competitive like the NFL and NBA, and give weak teams a better chance to compete with the strong teams?**

*It's true that the NFL is more competitive than MLB, but it has been for a long time, even before the introduction of its salary cap. There was no distinct change in competitiveness after the introduction of the cap. The NBA is actually less competitive than MLB, with the best teams in basketball beating up on the worst teams more than in baseball.*

**What about improving revenue sharing to give poorer teams more resources to compete?**

*It's a nice idea, but giving less-successful teams more resources to compete actually creates perverse incentives that encourage losing. Because winning tends to increase revenue, and higher revenue from winning lowers revenue-sharing disbursements, the benefits from improving once you're already bad are small. Among losing teams, I have identified an area, which I call "the loss trap," where I've found winning actually costs teams money. Even if teams aren't explicitly exploiting the loss trap, the returns to winning don't become strong until a team is winning games in the mid-80s. With revenue sharing, teams have little financial incentive to get better.*

**But, you've got to admit that it gives teams at the bottom a fighting chance and hope of making the playoffs.**

*Actually, I think the evidence shows otherwise. From the 1930s until the early-1990s, MLB's competitiveness showed continued improvement. Since that time, the improvement has leveled off. Though revenue sharing and luxury or "competitive balance" taxes were implemented in the mid-1990s, there has been little improvement in the competitiveness of the league.*

**If revenue sharing fails, how does the league preserve competitive balance?**

*In my view, the introduction of the amateur draft in 1965 has been the biggest equalizer across teams of any policy introduced by MLB. The draft was implemented largely because big-market teams were signing the best young talent to huge signing bonuses. The draft changed the system by giving each team a shot to sign young talent, and the rules that gave teams sole bargaining rights to its own players (rights that would be severely curtailed, but not eliminated, in the 1970s) allowed even the poorest teams to acquire players who would generate significantly more revenue than they generate.*

**Why does the draft succeed when other competitive balance policies have failed?**

*The draft doesn't suffer from the perverse incentives of revenue sharing. If you find the best talent, you can groom and cultivate it in order to reap the rewards of paying players far less than their financial worth during their first few years in the league. This gives losing teams an incentive to do things that lead to winning rather than just sit back and collect revenue sharing. Overall, I'm not worried about competitive balance in MLB. In the 2000s, only seven teams missed the playoffs; and, two of those teams (the Cincinnati Reds and Texas Rangers) made the postseason this year.*

**You claim to debunk several "myths" about the hot stove league. Why do you think these myths need debunking, and what are some of the misconceptions about the players market that are discussed in hot stove debates?**

*There are a lot of ideas that persist, because they seem to make sense at first glance, so they get passed along without much scrutiny. It was my intention to demonstrate that many of these common notions are mistaken, and can be seen as such with brief analysis. For example, when trades are made, the first question often asked is "who won?" But, trade isn't a zero-sum game with a winner and a loser. Teams trade because both general managers think they are being made better off, and they can both be right because they have different needs. Trade doesn't involve one party duping another, it involves two parties valuing items differently. There is also a belief that free agents flooding the market can dampen the salaries that players receive, because of a dearth in the supply of players. However, the market isn't just flooded with free agents from the supply side. More free agents means there are more openings on the demand side as well. I found that the number of free agents at a position had almost no effect on the wages that free agents ultimately received.*

**Other Myths:**

*Clutch hitters and pitchers exist (It's not a skill that players seem to repeat); Players peak at 27 (True peak is 29-30); GMs can buy low and sell high (GMs are not that myopic); Player salaries raise ticket prices (The causality runs the other way); College players are better draft bets than high school players (The college pool is limited); Low-talent MLB-caliber players are abundant (Not according to the distribution of player performances).*

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