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Professor

Course

Date

Salary Caps in Sports: Fair or Unfair for Players

Introduction

Salary caps in professional sports teams are a hot topic that have been debated by everyone, who has any relation to sport, from casual sports fans to the highest giants of professional sport. Introducing a limit on the amount of money that teams can spend on the salaries of their athletes has been discussed since the Great Depression. Taking into account the uncapped 2010-2011 NFL season, the cap debates started again¹. One of the major rules of all professional sports is teams adherence to a fixed amount of money to be spent for good players. The amount is determined by a complicated mathematical equation. It involves the amount of money, earned by the league in the previous years, profits from ticket and merchandise sales, and television contracts. What effect do salary caps have on sports? What are the pros and cons of the salary caps? Are they fair and why some pro sports players earn less than others? These are the questions to be discussed further in the paper.

The salary cap is quite a new phenomenon, used in all professional sports, meanwhile affecting the team and its performance. Caps are used to impose limits on money a team is able to spend on the salaries of their players.² Salaries in professional sports are becoming out of control. Teams are getting unbalanced and start losing profits, therefore, the use of salary caps in pro sports is obligatory. The term salary cap defines a league endorsed payroll limit

¹ Dietl, Egon Lang and Rathke 307

² Staudohar 4

that restricts the amount of money professional sports teams can spend on the salaries of players.³ The three major American professional sports leagues use the salary caps: the National Football League, National Basketball League and National Hockey League.⁴ The use of salary caps has its proponents, who strongly believe in the advantages of the system. They are sure salary caps promote competition, improve organizational intelligence and increase league revenues.

Brief History of Salary Caps

Prior to the introduction of free agency in the 1980s, professional sport leagues functioned according to the “reserve clause”. The players were prohibited from negotiating with other teams, so players challenged the clause in the 1970s. As a result, the owners of the sport teams offered new arguments about salaries, which looked like the salary caps, used today.

Salary Caps Today

Nowadays, salary caps are inevitable in the professional sport, as they help restrict the teams in salary sharing. However, the questions remain: are salary caps fair? Do all the players receive fair payment? For example, the salary of the NFL player reaches \$770,000 however, the average salary of a teacher is \$42,000. Moreover, the players can make more money from endorsing products. The proponents of salary caps state that they help players earn money, but not too much, and their use in professional sports is obligatory.

There are more arguments to be cited in favor of salary caps. Teams in professional sports are becoming unbalanced. Such teams as the Patriots(NFL) and Yankees(MLB) gained their power because of their money. However, there are the teams, where players receive a more modest salary: the Buccaneers(NFL) and Padres(MLB). Teams, having more money, are free to get any successful player, because they can offer more to him. According to the

³ Staudohar 4

⁴ Ibid. 5

opinion of a pro sports consultant: "There is example after example of teams making the playoffs every year and teams just about never making them. When salary caps are put in place, teams become balanced and every team can have a good season".

Every sports team, losing profits, lowers the salary level. The prof sport teams lost money every day, because much of the profits are deducted to the salaries of the players and staff. If the team has a bad season, its profits decrease, because less fans buy tickets, souvenirs and foods. With the use of the salary caps, fans are less likely to leave a team, while the team can keep making profits.

Pros of the Salary Caps

Proponents of salary caps also state that salary caps in pro sports lead to fair talent distribution and competitive balance. It is not a secret that talented and successful players demand high salaries. Therefore, capping on salary prevents most lucrative franchises from storing talent, thus placing payroll teams at a competitive disadvantage⁵.

Increased and fair competition as well as media exposure are among other advantages of the salary caps in a professional team sport. Proponents are sure that the increase of the competition level in league increases regional and national interest in the league and separate teams. More competitive and luxury leagues, which hire professional and highly paid athletes, attract more audience and are more likely to be offered lucrative contracts by the advertisers. The use of the salary cap in the National Football League is a bright example of the ability of the system to level the playing field and create a competitive league.⁶

The list of advantages of the salary caps in pro sports can be added by the wage equality and increase of the organizational intelligence. The reason is that a salary cap is a high motivator for the franchise's spending of money. It leads to fewer franchises giving large

⁵ Dietl, Egon, Lang and Rathke 308

⁶ Ibid., 309.

amounts of their payroll to unproven and less talented players. Instead, they divide their salaries evenly among more adaptable and compatible athletes. Salary cap supporters are sure that the system is able to promote wiser spending habits, reject in-depth scouting and prevent players from injury.⁷

Finally, an important advantage of the salary cap is motivation. There is a strong correlation between the athlete's performance and money they receive. Prof sports athletes are sure that the salary cap is the opportunity for the athletes to do their best during the game in order to attract more fans, who will bring them more money. Advocates of salary caps argue that this policy provides a competitive balance. This is the opportunity for the teams from different economic backgrounds to compete with each other fairly. In theory, with the help of this competitive balance, historically successful teams cannot buy or gather too much talent within the same team.

The Cons of the Salary Caps

The debates over the issue are quite old and the number of opponents is increasing. Those, who find salary caps unfair and wrong state that salary caps prevent small clubs and teams from success, as they are not able to buy successful players. The major and most popular disadvantage is the fact that teams "buy" their way to success. Smaller and less successful prof teams find it very difficult to retain their players and move them to the next season, as the amount of money they have for salaries is restricted⁸. The competition with richer and bigger clubs is excluded at all, because the smaller ones are out of the game, when it deals with buying talents.

The second disadvantage of the salary cap is its feeding of inflation in free agent prices. Some sport professionals stick to opinion that free agent contracts have become larger,

⁷ Vrooman 365

⁸ Késenne 423

and the absence of the hard salary cap puts more power into the negotiating hand of the players. For instance, a player realizes his value to the team and the club, which are ready to pay any price for his participation.

The Effect of the Salary Caps

Even though there is no direct effect of the salary caps on merchandise and ticket prices, the effect on the teams' ability to acquire and retain athletes is obvious. This is the reason why some athletes are paid less. Due to the salary caps, teams with less talent are allowed to have the opportunity to attract players from better teams. Theoretically, all teams are provided with the same amount of money to pay salaries to their players. Instead of having rich teams and the teams having less money for the talent's salary, all teams have the same buying power and are able to build a strong franchise.⁹

Apparently, salary caps affect the amount of money, earned by the athletes in a year. As a result, some top athletes are forced to protest against the use of salary caps. It, therefore, causes some implications for sports. In 1994 almost the entire Major League Baseball season was called off, as the league and players could not find an appropriate solution to a proposed salary cap. The owners asserted the necessity to use the cap, while team refused to play.¹⁰

Except strikes and conflicts, salary caps affect the way, in which players get paid. For example, in case of a multi-million dollar contract, awarded to a player, the salary he receives is not necessarily divided equally every year. A player may receive different amount of compensation every year, while the rest of money is at the teams's disposal. For the team, this is the opportunity to have more room to get out of the contract (Silver 99). Moreover, it may plan out the budget to be spent for salaries. It briefly explains why some players receive less salary caps, while the others are compensated more generously.

⁹ Noll 14

¹⁰ Modon para 5

The opponents the salary caps also state that playoffs inspire competitive balance. Elimination games or series result in randomness and often allows some low-revenue teams to succeed in small sample sizes. The necessity to set salary limits vary from sport to sport and there are the sports that refused to introduce salary caps. Baseball is a game that has no salary caps. Due to the inherent randomness of this kind of sport, even after a 162-game season, it is very difficult to correctly spend money on players. Unfortunately, it has negative outcomes, as baseball players are not motivated to demonstrate high performance and in 2013, the connection between player salary and performance was zero.

Conclusion

With the continuation of the salary cap discussions, one has to remember that professional sports is big business. Many financial factors influence salaries and the compensations as well as the way they are paid. Moreover, these factors influence the ticket price and the establishment of the salary caps. Introduction of the salary caps for the pro sports teams was a starting point in the process of a fair revenue distribution. From the very start of the process, it provoked debate, whether the caps are necessary and how they would affect the performance of the players and teams. The proponents are sure that salary caps are more a necessity, as they help balance teams, improve players' performance and give birth to the fair competition among the players and sport clubs. While the opponents stick to the point that salary caps should be eliminated, as they are unfair. As a result, talented players receive less, only because they play for the less successful club.

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