

Exercise #2: Can Small Market Teams Compete?

In his book *Moneyball*, Michael Lewis argues in favor of a strategy that allows front office and team personnel to evaluate player talent in an innovative way that can be successful on the playing field. Oakland Athletics general manager Billy Beane began this system of player evaluation, by selecting players based on their performance in terms of the slugging percentage and on-base percentage statistical categories instead of the more highly touted runs batted in, home runs and stolen bases categories. In general, the A's found that these qualities in a player were easier, and cheaper, to obtain on the open market than a power hitter, for example.

Lewis argues of a labor market in which different players are valued according to their statistical output. In other words, on-base percentage and slugging percentage contribute at the same proportion to winning because on-base percentage and slugging percentage, according to Lewis, are the most economically beneficial statistics to a major league team.

The question remains if small-market teams such as the A's can be competitive in the long-term. Firstly, "competitive" must be defined; some may say that being competitive is strictly defined as obtaining a championship. If that is the case, then the Beane and Lewis hypothesis cannot be supported. The A's made the playoffs four straight years and won the AL West Division each of those years (2000-2003), but failed to advance past the Division Series. Hakes and Sauer indicate that Theo Epstein took over the Red Sox in a General Manager capacity, and inherited Beane's Moneyball

philosophy. The Red Sox went on to win the World Series in 2004, with the principles of sabermetrics as a backbone of success. However, the Red Sox payroll in 2004 was \$125,208,542; the A's average payroll during their successful four years (2000-2003) was \$39,044,398. The 2004 Red Sox World Series championship team featured a 21-game winner in Curt Schilling, and the third-best pitching staff (in terms of ERA) in all of baseball. Hakes and Sauer doesn't take into account the large affect that quality pitching has on short and long-term success. The "Big 3" – Barry Zito, Mark Mulder and Tim Hudson – all led the best pitching staff in the game (statistically, in fact, with the best staff ERA in MLB). All three pitchers signed for significantly larger paychecks by the end of the 2006 season. Hakes and Sauer's article doesn't suggest a way to value pitchers in a way that they value hitters. In the long-term, pitching is a necessity; the A's went 76-86 and 75-86 in 2007 and 2008, respectively, following the departure of their Big 3. The Red Sox, conversely, have not plummeted below .500 since the implementation of the Moneyball philosophy in 2002. However, the Red Sox have been able to keep and develop their pitching staff to compete for World Series rings in the long-term (e.g., their 2007 World Series team had the best pitching staff in terms of ERA in MLB) because of a payroll that allows them to do so.

Consequently, the first step to baseball's competitive imbalance problem would be eradicating the free agency system. In the case of the A's, Zito, Mulder and Hudson were free agents following the 2006 season, and signed multi-million dollar deals with teams that could afford the steep price tag. The second step is to enforce a salary cap, which moves beyond a simple luxury tax that has little affect on small-market teams as a whole. In 2008, the amount the Yankees pay in salaries and taxes will exceed \$210

million, a percentage of which will be reinvested to teams in the league. However, the current collective bargaining agreement allows rich owners to spend at will – which the Yankees have been known to do – and the luxury tax is redistributed in a way that few teams actually feel the affects of it. Baseball needs cooperation from the players union and owners from high-revenue teams to create a salary cap in order to curb baseball's competitive imbalance issue.