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The Effect of Monopsony Power in Major League Baseball on the Salaries of Players with Less Than Six Years in the Majors

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Poster Presentation P53

**THE EFFECT OF MONOPSONY POWER IN MAJOR LEAGUE BASEBALL
ON THE SALARIES OF PLAYERS WITH LESS THAN SIX YEARS
IN THE MAJORS**

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This research attempts to measure the impact of monopsony power on baseball players with less than six years of experience. Past research indicates that players with less than six years of experience have lower salaries than players with the same productivity and more than six years of experience. To try and combat this monopsonistic behavior, baseball players formed the Players' Union and instituted an arbitration process. Through this process, a third party arbitrator listens to cases from both a player and owner and then chooses one salary bid. While this process is intended to help players gain market power, it is still unclear whether the actual process is effective. Therefore, it is important to measure the impact of this monopsonistic market to see if further changes in the arbitration process need to be made.

To do this, a case study of 19 outfielders who have filed for and received an arbitration hearing during the time frame of 1990-2003 are examined following their career throughout their pre-arbitration (first three years), arbitration year (after third year), and post-arbitration years (after fourth year on). By using the human capital model, three ratios of the players' actual salaries during these years to a predicted free agent salary is developed. The prediction that the ratios should increase throughout these three periods, due to the fact that the players gain more market power, is supported in the results. In fact, the ratios increase from 0.27 in pre-arbitration years, to 0.97 in the arbitration year, to over 1.2 in post-arbitration years. This indicates that the players face substantial monopsony power in the pre-arbitration year followed by a decrease in monopsony power through the arbitration process and post-arbitration years.