

Should MLB Implement a Salary Cap, and What Would It Look Like if It Did?

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ABSTRACT

The salary cap in worldwide professional sports is a barline set by each league designed to promote competitive fairness and keep team financial spending in check. While many leagues like the NFL, NBA, and NHL all have these salary caps implemented into their leagues, Major League Baseball (MLB), one of the largest and most significant American sports leagues, has not implemented one. This paper examines the structure and effectiveness of salary caps across various professional sports leagues, with a primary focus on Major League Baseball (MLB). Salary caps, designed to maintain competitive balance by limiting team spending, are utilized in leagues such as the NFL, NBA, and NHL. However, MLB operates without a salary cap, leading to significant payroll disparities between large teams like the Dodgers and Yankees and smaller teams like the Oakland Athletics. This paper explores many types of salary rules: hard caps, soft caps, and no caps, and analyzes how these models impact competition in sports. Also, it compares MLB's lack of a salary cap to other leagues' structures, discussing key regulations like luxury taxes, foreign player limits, and salary arbitration. The potential for an MLB salary cap is proposed, including how it could be structured and its possible challenges. While a salary cap could reduce competitive imbalances in MLB, the paper also considers the other effects, such as limiting player earnings and team flexibility. Finally, the paper explores broader considerations, highlighting rules and regulations from other sports leagues that could influence the MLB's approach to financial regulation.

1. Introduction

While Major League Baseball (MLB) does have a luxury tax, this does not stop the big market teams from overspending on superstar players during free agency. In 2024, the New York Mets had a payroll of \$316 million, while the Oakland Athletics had a payroll of \$62 million, a rough \$254 million difference between these two teams. In MLB, spending broadly translates to

success, as most World Series winners are generally at the top of the payroll. As we have seen in recent years, at least in terms of win totals, the correlation between salary and success is very obvious. The top six teams in payroll over the past five years have averaged 91 wins (a generally high mark for an MLB team), up from 86 by the top salaried teams in the previous five years. However, teams like the Oakland Athletics and the Pittsburgh Pirates generate much less revenue than big-market teams in big cities like the New York Yankees and the Los Angeles Dodgers. This has created a massive imbalance between MLB's small and big market teams. So, instead of seeing a variety of competitive teams, we generally see the same bad teams every year while most of the highest-spending teams make the playoffs, displaying the direct correlation between spending and team success. MLB needs to implement a salary cap to give those small market teams a fighting chance against the big market teams to reduce spending and create a more competitive balance across the league. Due to the extreme imbalance between the large and small market teams across MLB and the success primarily based on an unfair advantage that big spending teams like the Los Angeles Dodgers have, MLB should implement a salary cap limiting teams' spending to create more of a competitive balance across the league.

2. Literature Review

Different Salary Cap Types

The article concludes by outlining the three main types of salary caps used in professional sports: hard caps, soft caps, and leagues with no salary caps. A salary cap limits player salaries or total team spending set by the league to preserve competitive balance and prevent big-market teams from monopolizing talent. (Stardohar 1998) Leagues such as the National Hockey League (NHL), National Football League (NFL), and Major League Soccer (MLS) operate with a hard salary cap, which teams cannot exceed under any circumstances.

In contrast, leagues like the NBA employ a soft cap system, where teams can exceed the cap but must pay a luxury tax. The amount and penalties for exceeding the cap differ based on the league and the number of years of overages. Finally, some leagues, like the English Premier League, Bundesliga, and Nippon Professional Baseball League, have no salary cap, allowing teams to spend as much as their finances permit. (Jarden 2023)

MLB Regulations and Contract Rules

Major League Baseball (MLB) is inherently unfair due to the lack of a salary cap, which permits wealthier teams to outspend smaller market teams, creating a considerable competitive imbalance (Pleskoff 2024). Unlike the NFL, NBA, and NHL, which have salary caps to promote competitiveness, MLB allows teams to spend as much as they can afford on player salaries. This

results in teams like the Dodgers, Yankees, and Mets having significantly higher payrolls than smaller market teams such as the Oakland Athletics.

Large MLB contracts, such as Shohei Ohtani's \$700 million deal with the Dodgers, are only possible after players complete their six-year rookie contracts. (Brandt 2023) Unlike in the NFL and NBA, MLB rookies remain under team control for six years before becoming eligible for free agency. After their first three years of service, players may negotiate their salaries with their team through arbitration. If an agreement is not reached by mid-January, the matter can proceed to arbitration, where a panel chooses between the player's and the team's proposed salary. Arbitration remains a crucial tool for players seeking higher compensation.

While some fans are frustrated by high-spending teams like the Dodgers, this spending may also reflect a team's commitment to winning. Although wealthier teams have more resources, spending demonstrates a team's willingness to invest in talent. Many teams in the MLB are unwilling to pay for high-caliber players, resulting in less competitive performance. (Lindbergh 2023) While high payrolls do not always guarantee a World Series victory, they often correlate with more substantial teams, as evidenced by the Texas Rangers, who had the fourth-highest payroll and won in 2023.

Additionally, this article explains the workings of the MLB luxury tax. Unlike other major leagues like the NBA and NFL, which have salary caps, the MLB enforces a luxury tax for teams exceeding a certain payroll threshold. This tax rate increases based on how many consecutive years a team exceeds the limit. Teams pay a 20% tax on overages for the first year over the threshold, increasing to 30% and 50% for subsequent years. (MLB 2023) If a team surpasses the threshold by \$20 to \$40 million, they incur a 12% surcharge. Exceeding by \$40 to \$60 million results in a 42.5% surcharge for the first year and 45% for subsequent years, while exceeding by over \$60 million results in a 60% surcharge. A team's competitive balance tax figure is based on the average annual value of each player's contract on the 40-man roster. However, the penalty is reset if a team falls below the luxury tax threshold in a subsequent season.

In a separate article, the author touches on the history of the reserve clause and its lasting impact on baseball. Curt Flood's lawsuit against MLB 40 years ago challenged the reserve clause, allowing teams to control players' careers indefinitely. Although Flood lost the case, it led to the establishment of free agency in 1975. (MLB 2023) Though unlikely, the author argues for a return to the reserve clause as free agency has contributed to significant salary disparities and frequent player transfers. The reserve clause helped prevent wealthier teams from acquiring all top players and fostered team continuity, allowing players to become local icons. Despite these potential benefits, the article acknowledges that players and large-market teams would likely resist such a move.

Other Comparable Leagues and Their Respective Rules

This article dives into the NFL salary cap and its team-building role. Established 30 years ago, the NFL salary cap, set at \$255.4 million for 2024, limits team spending on player salaries. (NFL 2024) The cap is determined by the league's revenue sources and is split between owners and players. While teams cannot exceed the cap, they can restructure contracts and use signing bonuses to manipulate finances for their benefit. Unused cap space can be carried over to the next season. It is important to note that coaches' salaries do not count towards the salary cap, and unrestricted free agency replaced the reserve clause in 1994.

The NBA's salary cap and luxury tax system are also discussed. For the 2023-2024 season, the NBA's projected salary cap was \$134 million, with the actual figure being \$136 million. (NBA 2024) The NBA uses a "soft" salary cap, which allows teams to exceed the cap under certain conditions, unlike the NFL's "hard" cap, which allows no exceptions. Teams exceeding the cap by over \$28 million are subject to a luxury tax. Furthermore, the collective bargaining agreement (CBA) imposes two tax aprons at \$169 million and \$179.5 million, which place additional restrictions on spending to prevent wealthier teams from monopolizing talent.

Different from a free agency move, a soccer transfer process has different windows and rules in leagues like the English Premier League than other typical sports leagues. (Premier League 2023) A transfer involves a player moving from one club to another, typically involving a transfer fee influenced by the player's quality and contract status. Unlike MLB trades, soccer transfers require player approval, and transfers can only occur during designated windows, typically in summer and winter.

The NBA rookie contract structure is also examined. First-round NBA rookies sign standardized four-year contracts, with options for the third and fourth years. (Adams 2024) In 2022-2023, the rookie minimum salary was \$953,000, rising to over \$1.1 million for the following season. Teams may extend rookie contracts in the fourth year, adding up to four additional years. Unlike MLB, which allows for more extended rookie contracts, the NBA limits them to four years. Teams may also retain rookies for a fifth year by making a qualifying offer, which converts the player into a restricted free agent.

Lastly, the article discusses the MLS salary cap, which allows clubs to carry up to 30 players on their active roster. (MLS 2024) In 2024, the salary budget for senior roster spots (1-20) is \$5.47 million, while spots 21-30 are for lower-paid or younger players. The maximum salary charge is \$683,750 per player, though the designated player rule allows each team to exceed this for up to three players. Teams also receive General Allocation Money (GAM) and Targeted Allocation Money (TAM) to manage salary budgets. Despite Lionel Messi's massive \$12 million salary in

2024, Inter Miami adheres to these rules by classifying him as one of their three designated players.

Analyzing Salary Caps in General

The article analyzes the impact of salary caps in professional sports, emphasizing their role in maintaining competitive balance and regulating player salaries. Salary caps, first introduced by the NFL in 1994, were later adopted by other leagues, including the NHL. While disputes over salary caps have caused disruptions, caps have generally boosted average player salaries by giving smaller market teams a more level playing field. The article highlights innovative ways teams have manipulated salary caps, including signing bonuses and even cryptocurrencies, as seen in Paris Saint-Germain's (PSG) use of fan tokens to sign Lionel Messi. Despite initial opposition, salary caps have proven beneficial for the financial stability of sports leagues and for raising average player salaries. (BBC 2021)

3. Why MLB Needs a Salary Cap

MLB is one of the few major professional sports leagues in the United States without a strict salary cap, relying instead on luxury tax thresholds to regulate team spending. While the league promotes competitive balance through this system, the absence of a formal salary cap has led to significant disparities in team payrolls across the league, which often correlates with competitive imbalance. A salary cap would address these issues more effectively by limiting financial advantages and creating a more level playing field, as seen in other professional sports leagues like the NFL and NBA.

A. Disparity in Spending vs. Competitiveness

The correlation between team payroll and on-field success in MLB is more pronounced than in leagues with a salary cap. For example, in the 2024 MLB season, the top spending teams, such as the New York Mets, New York Yankees, and Los Angeles Dodgers, had payrolls exceeding \$200 million while making their respective championship playoff series. In contrast, small-market teams like the Oakland Athletics and Pittsburgh Pirates spent less than \$70 million and ended up at the bottom of the division, with the Athletics barely reaching 50 wins. These spending gaps create significant competitive disparities affecting MLB teams' ability to retain star players, attract top free agents, and develop strong farm systems. In a study on the correlation between payroll and wins, a team's payroll explains about 58% of the variation in wins over four years (2014-2017). The study also shows that, on average, a team can only move up and down five spots based on their payroll.

In contrast, leagues like the NFL and NHL enforce salary caps, which prevent the wealthiest teams from overspending on talent. In these leagues, while market size still influences factors like free agency appeal and franchise value, a salary cap ensures that even smaller market teams have the financial flexibility to build competitive rosters. The NFL, in particular, is known for its "any given Sunday" level of competitiveness, where nearly any team can compete for a championship in any given year, regardless of its market size. Throughout the late 1990s and early 2000s, the NBA was known for its dynastic era, in which specific teams like Michael Jordan's Chicago Bulls and Kobe Bryant's Los Angeles Lakers dominated the NBA landscape. However, as the NBA approached the modern era that we see today, we know the league's growth and success attributed not only to dynastic teams but small market ones as well. The NBA's cap system, though allowing for some flexibility, prevents teams from dominating the market purely through pure free agency and financial muscle and has led to enhanced parity in the modern NBA era. And while the Golden State Warriors did win 4 NBA titles in 7 years from 2015-2022, this was due to the fact that half of these titles came while 2 time most valuable player Stephen Curry was the 5th highest paid player on their team. This is also due to the fact that most of their top contributors were homegrown players that the organization drafted like Stephen Curry, Klay Thompson, and Draymond Green. Because all NBA teams have limited space, they need to utilize every dollar they have. This forces teams to often find cheaper options and strategize their salaries to fit the cap. An example is the 2021 NBA champion Milwaukee Bucks, known as a minor market team, who emphasized drafting and strategic roster building over free agent spending centered around Giannis Antetokounmpo.

In contrast, MLB's financial imbalance has led to a widening gap in team competitiveness. Smaller-market teams are often forced into lengthy rebuilds, trading away stars because they cannot afford to extend contracts or match offers from wealthier clubs. This imbalance has contributed to the "haves" and "have-nots" dynamic that a salary cap could reduce.

B. Flaws in Current Competitive Balance Rules

MLB's current competitive balance mechanisms, like the luxury tax and revenue sharing, have not equalized the playing field. While the luxury tax penalizes teams that spend significantly over the threshold (\$233 million in 2023), it does not stop high-revenue teams from exceeding it, as the penalties are often seen as a cost of doing business. Teams like the Dodgers and Yankees, for example, regularly exceed the luxury tax threshold, knowing they can afford the penalties due to their massive local TV deals and larger fan bases.

Revenue-sharing, another tool meant to level the field, redistributes funds from large-market to small-market teams. However, this system has flaws. While small-market teams receive financial support, they are not required to reinvest those funds into player payroll or roster development.

Some teams may pocket the money without significantly improving their on-field product. This leads to frustration among fans and further exacerbates the gap between big-market and small-market teams.

MLB has competitive balance rules for the draft and awards smaller market teams with higher draft picks, with limits on the draft lottery. The 10 MLB teams with the lowest revenues and those from the 10 smallest markets can qualify for a Competitive Balance draft pick. Since some teams meet both criteria, fewer than 20 teams are eligible each year. Each qualifying team is awarded a Competitive Balance Round A or B pick. The Draft lottery limit ensures that teams receiving revenue-sharing payouts cannot receive a lottery pick for over two years. While this rule places a cap on repeat high picks, it fails to address the more significant financial and developmental factors that keep small market teams at a disadvantage. While adopting rules to preserve the fairness of the MLB draft, MLB player development is an extremely long process, with most players taking years to reach the major leagues. So, the effect of these draft rules isn't as resounding due to the indirect correlation with the actual MLB team. The rule is insufficient to ensure long-term parity across the league without addressing spending and development disparities.

In comparison, leagues with salary caps enforce stricter spending limits to guarantee an even distribution of talent. In the NFL, for instance, the salary cap is complex, with the remaining cap unused rolled over to the following year. Other than that, there are no exceptions, meaning no team can exceed it, forcing general managers to build rosters with stars and role players and ensuring talent is spread evenly across all teams. The NBA uses a soft cap system with luxury tax penalties, but its structure still limits how much the wealthiest teams can dominate by outspending their rivals. In the MLB, however, while there are specific teams that build homegrown talent, the reliance on good teams is usually in free-agent spending.

C. The Impact of No Salary Cap on Player Mobility

MLB's lack of a salary cap also impacts player mobility, as big-market teams can afford to offer lucrative contracts that smaller teams cannot match. As a result, a pattern has arisen where star players gravitate toward wealthier teams, further consolidating talent among a handful of franchises. Recent examples include Bryce Harper going from the Washington Nationals to the Philadelphia Phillies, CC Sabathia from the Milwaukee Brewers to the New York Yankees, and Freddie Freeman from the Atlanta Braves to the Los Angeles Dodgers. The Los Angeles Dodgers are an extreme and relevant example to this, as their signing/resigning of free agents such as Japanese superstar Roki Sasaki, all-star pitcher Blake Snell, and premium outfielder Teoscar Hernandez put them at the top of the preseason rankings once again. The Dodgers' signing of many of the top free agents in this year's class highlights the unfair game that baseball

has become, due to the fact that while they dominated the 2024 world series with the top 5 payroll, they still have more to spend. Many fans feel as though something needs to be done about the large market spending that they claim is “ruining baseball”, represented especially by the Dodgers \$452 million offseason.

This imbalance skews competition and reduces fan engagement in smaller markets. In 2024, the top 3 MLB teams with the best records in baseball were the Dodgers, Yankees, and Phillies. Accordingly, all three clubs ranked in the top three in average fan attendance at 41,527, 41,896, and 48,657 fans, respectively. (percentage of stadium filled) On the other hand, in 2024, the 3 MLB teams at the bottom of the standings were the Oakland Athletics, the Miami Marlins, and the Chicago White Sox. These teams all ranked in the bottom 5 of the average MLB attendance across all MLB teams. In leagues with salary caps, while star players move, the financial limitations force teams to make tough decisions that spread elite talent more evenly across the league. For example, in the NBA, superstars like Kevin Durant and LeBron James have changed teams multiple times, but the salary cap has forced even the most prominent franchises to strategize carefully about roster building, preventing total dominance by any single team. In the NFL, teams cannot sign all available top-tier free agents due to the hard cap, resulting in a more broad distribution of talent across the NFL's 30 teams.

D. Enhanced Parity Leads to a Stronger League

Implementing a salary cap in MLB would likely enhance parity and make the league more competitive. The allure of unpredictable outcomes, where every team has a chance to win a championship, has contributed to the success of leagues like the NFL. While MLB has had instances of smaller-market teams succeeding (such as the Tampa Bay Rays or the Kansas City Royals), these occurrences are the exception rather than the rule. Since 2010, about 20% of teams reaching the World Series have had payrolls in the bottom half of the MLB payroll. The other whopping 80% is taken up by teams that spend money and end up in the upper half of the payroll. A salary cap would allow more teams to invest in free agents and compete year after year rather than being locked into boom-or-bust cycles dependent on financial constraints.

Furthermore, the increased parity created by a salary cap would likely boost fan interest across all markets. As we can observe from the implementation of the 1994 NFL salary cap, fan engagement increased heavily due to the fact that smaller market teams around the United States, like the Green Bay Packers, were suddenly able to compete for championships year after year. This created excitement and engagement from fans across the widespread US, rather than in exclusively large market cities. So, due to this implemented salary cap, the NFL saw record-high merchandise sales, TV ratings, and attendance, displaying how improved parity in spending can correlate to greater league-wide fan engagement. As stated, for the 2024 season, the Dodgers,

Yankees, Braves, and Phillies all made the playoffs, all within the top 8 best records during the regular season. In direct correlation to that, all four of these teams were in the top 6 in revenue generation, with the Dodgers and Yankees, the two World Series teams, also generating the highest TV ratings in between matchups as well.

4. Unique Salary Rules in Professional Sports Leagues Across the World

Professional sports leagues around the world have all implemented various unique salary rules to maintain competitive balance, manage team spending, and ensure long-term financial stability to benefit each respective league. These different regulations differ from salary caps and luxury taxes to revenue sharing and tax aprons. By examining the diverse salary structures across different leagues, we can better understand how financial strategies shape each specific league and their particular relation to MLB. In this section, some of the most significant salary rules in professional sports leagues worldwide will be explored, highlighting their impact on both players and teams.

NFL cap rollover

In most leagues with salary caps, unused cap space disappears going into the next season. That money is wasted, and they go on to the next season with the same cap as every other team. However, in the NFL, any unused space that the teams do not use for that year's salary cap can be rolled over to the following year's salary cap. This is unique because it allows teams to quickly overhaul their rosters and focus on spending from one year to the next. Additionally, NFL teams must spend at least 89% of the total salary cap in a four-year period. This prevents teams from tanking.

MLB Luxury Tax

MLB, unlike other leagues like the NBA and the NFL, does not have any restrictions on team payroll. Instead, they have what is called a luxury tax, where teams that go above a certain threshold are taxed per dollar they go over. The rate at which each team is taxed can increase yearly based on how many years that team has been over in a row. The team's competitive balance tax figure is determined based on the average annual value of each player's contract who is currently on the 40-man roster. For the first year above the threshold, the tax is 20% on all overages, 30% for two, and 50% for three years. However, if the drop below the luxury tax the following season, it is reset. If a team exceeds the luxury tax by \$20 to \$40 million, there is a 12% surcharge. If a team exceeds \$40 to \$60 million, it is a 42.5% surcharge for the first year and 45% for each year after that. If a team exceeds \$60 million, then they have a 60% surcharge. (Do this for other data in the paper)

NBA Luxury Tax

Some leagues, like the NBA, have luxury taxes to keep the spending in check. The luxury tax system in the NBA is designed to tax the teams that exceed their soft salary cap. For this past season, 2023-2024, the NBA had a salary cap of \$136 million. Unlike the NFL's "hard" cap, which allows no exceptions, the NBA's "soft" cap will enable teams to exceed it while paying a specific tax for how much each team went over by. Teams exceeding the cap by over 28 million face what's called the luxury tax. This luxury tax is the penalty that the team has to pay, which goes up incrementally higher each dollar the team exceeds the cap by. Additionally, the CBA (collective bargaining association) has two tax aprons at 169 million and 179.5 million dollars, which increase taxes even further to ensure that teams only spend what they can afford. These aim to prevent wealthier teams from hogging all the talent and to promote competitive fairness throughout the NBA.

MLS Designated Player Rule

The MLS salary cap works differently from other leagues in that they have a particular rule called the Designated Player Rule. In 2024, MLS clubs may have up to 30 players on their active roster. In designated spots 1-20 (or the senior roster spots), each club has a total budget of \$5.47 million to spend on those players. Spots 21-30, known as the Supplemental Roster Spots, are the lower-paid or younger players paid at the lead minimum or close to it. The maximum salary budget charge is \$683,750, which is the maximum amount a club can spend on a player. However, there is a designated player rule where each team gets three players that can exceed the budget charge without penalty. Each selected player counts as the maximum salary against the cap for that respective year. That is how Lionel Messi and Inter Miami abide by the MLS contract rules and how he is currently not an exception to them like many thought he was. He is one of the three designated players that each club is allowed to have over the budget charge. This rule was created by David Beckham. When Beckham came to the US, they made this designated player rule where teams would be able to afford more prominent players in order to attract more stars to go to the US.

MLB salary deferrals

MLB salary deferrals involve teams delaying a large portion of a player's salary to be paid in future years, often beyond the duration of the player's contract. This strategy allows teams to sign players to lucrative deals while reducing the immediate financial burden on their payroll, which in turn will enable teams to have more financial flexibility for that season in order to sign other star players. For players, it provides the promise of long-term income even after their playing career has ended. However, deferrals can carry risks for both parties. Teams may face significant

financial liabilities down the road, while players risk not receiving their full compensation due to factors like ownership changes or the economic instability of the franchise. High-profile examples, such as Shohei Ohtani's famous \$700 million deferred contract with the Los Angeles Dodgers, highlight how deferrals can become long-term commitments that extend far beyond a player's active years.

Worldwide Foreign Player Rule

The foreign player rule is a rule that limits the amount of foreign players a team can sign. The leagues that have this rule include the English Premier League (EPL), the Bundesliga, La Liga, the Nippon Professional Baseball League (NPB), the Korean Baseball Organization (KBO), and the National Rugby League. Each of these leagues differs in their respective ways of limiting the amount of foreign players in their leagues, but this is done in order to keep a fair amount of homegrown players in the league. Most of these leagues that have these rules are European football clubs since they get so much international interest. Like in the EPL, clubs can only sign up to 4 international players, while the rest of the players must be English. However, in La Liga, Spain's highest level of soccer, teams are only allowed to have up to 5 non-European Union players on their roster. In the Bundesliga, each team must have at least 12 German players under contract. In the NPB, each team can have a maximum of 4 foreign players under contract, while the KBO only allows three.

La Liga per team cap fluctuation

The La Liga salary cap varies for each team depending on their revenue and financial situation as determined by the league. This past season, Real Madrid was at the top of the salary cap list with 727 million euros as their cap. Meanwhile, Alaves had the lowest at 31 Million euros. While there are still extreme disparities between these two teams, it would be hard to create one salary cap for all teams, considering that the revenue difference between them is excellent. It would be not easy to justify any more of a limit on Real Madrid and to allow Alaves to potentially overspend. Due to the nature of promotion/relegation leagues like La Liga, teams at the top are likely to stay at the top, which is why there is such a big difference in salary cap and revenue. The disparity between the top and bottom of the playing field is unfair. However, the salary cap rules are likely the fairest for this league based on how it is currently run. This allows for teams with more significant revenue to spend more while also ensuring that they have a limit.

Former MLB reserve clause

The reserve clause, a rule that gives teams the ability to retain a player as long as they wanted, was removed from Major League Baseball after arbitrator Peter Seitz won his case against the reserve clause in 1975. The reserve clause stated that the team, not the player, determined how

long a player played for that respective team. The player themselves was not allowed to leave in free agency or go to another team at all unless their own club released or traded them. This was a highly restrictive rule for the players, giving them almost no freedom to negotiate and leave the team if they wanted to, which eventually led to its elimination from the league. The reserve clause is something that you will not see in professional sports nowadays, and it is tough to find leagues that are still willing to have one due to the extreme restrictiveness it incites.

All expenses in the cap worldwide

In professional sports leagues across the world that all have salary caps, there are always minute details for each respective league that show what type of team expenses are included in the salary cap. Many professional sports leagues across the world, like the NHL, NFL, NBA, and MLS, only require player salaries to be counted towards their total salary cap. In some leagues like the WNBA and the Australian Football League, the coaching, medical, and training staff are all included in the salary cap with the players as well. In La Liga, all of these things are included, as well as spending on the youth system and roster reserves. This underscores the diversity among professional sports leagues globally and highlights the specific details that are effective within each league.

MLB Salary Arbitration

In MLB, players with three to six years of service time, or in some cases between two and three years, become eligible for salary arbitration if they haven't signed a contract for the upcoming season. In arbitration, the player and the club negotiate a salary based on comparable players' contracts. If they cannot agree on a figure by mid-January, both sides exchange salary proposals, and a hearing is scheduled for February. During the hearing, a panel of arbitrators listens to arguments from both the player and the team and chooses one of the two salary figures. The panel cannot select a figure in between those two figures. Most arbitration cases are settled before the hearing through one-year or multi-year deals, which allow both parties to avoid arbitration in future seasons. However, if a settlement is not reached, this will lead to the hearing, as stated above, in which the two sides battle for the salary they think they should have. Players remain eligible for arbitration until they accumulate six years of service time, after which they become free agents.

NHL Salary Arbitration

In the NHL, salary arbitration is a process available to certain players and teams to settle salary disputes when they cannot agree on a contract. Eligible players, usually ones with four or more years of experience, or teams can file for arbitration in the NHL. This process involves both parties presenting their case to a third-party arbitrator. This arbitrator then determines the

player's salary for that upcoming season based on player performance and team contributions. Unlike MLB arbitration, the arbitrator can set a salary that falls between the figures proposed by that specific team and player.

MLB Qualifying Offer

The MLB qualifying offer is a one-year contract presented by teams to their impending free agents, worth the average salary of the top 125 players in the league. This offer allows teams to potentially receive draft-pick compensation if the player declines the offer and signs with another team in free agency. In the last 10 years, MLB qualifying offers have ranged from \$15.3 million starting in 2014 all the way up to \$20.325 million in 2024. Players have 10 days to accept or reject the offer. If accepted, they stay with their current team on a one-year deal. However, if they reject it and sign elsewhere, their former team is awarded a draft pick, typically after the first round. Only players who have been with a team for the entire previous season are eligible for the offer, and it can only be extended once in a player's career.

NHL Qualifying Offer

In the NHL, a qualifying offer is a one-year contract that a team extends to a restricted free agent (RFA) to retain negotiating rights. It differs from other sports in that it must be at least equal to or slightly higher than the player's previous salary, depending on their earnings. If the team fails to make this offer by the deadline, the player becomes an unrestricted free agent (UFA) and can sign with any team without compensation for the original team. In hockey, this offer gives the team the right to match any offer sheets from other teams, but the player can still negotiate a longer-term deal or explore options within the market. This system helps teams retain control over young talent while offering players flexibility.

5. Opinionated Pros and Cons of These Rules if Implemented Into MLB

Con: All team expenses in the cap (opinion)

In my view, it would be more beneficial for the MLB to limit the salary cap to player salaries alone. The primary purpose of a salary cap is to regulate player compensation, so including the wages of coaching and medical staff would seem unnecessary if the MLB were to implement such a cap.

Con: Foreign player rule (opinion)

I believe this rule would not be suitable for the MLB, primarily because it is unnecessary. Currently, international players make up about 27% of the league, which may appear significant but pales in comparison to the Premier League, where international players constitute a striking

66%. International players are extremely important to baseball, bringing immense talent and attracting global fans. Players like Shohei Ohtani, Juan Soto, Fernando Tatis Jr., and Ronald Acuña Jr. have quickly become fan favorites, contributing significantly to the MLB's revenue. Despite their success, the league is still predominantly composed of American players, and there is no imminent need for the MLB to impose restrictions on international player numbers.

Con: Salary deferrals in Major League Baseball (MLB)

Salary deferrals should be banned because they distort the true financial state of teams and players, creating long-term financial commitments that can hinder both parties. For teams, deferring salary allows them to sign star players to contracts they may not afford at present, which could result in financial strain or even bankruptcy later on. For players, while deferrals promise long-term income, they carry risks such as inflation or a team's economic instability, which creates uncertainty over whether the deferred amounts will ever be fully paid. Additionally, salary deferrals can obscure a team's actual payroll obligations, undermining efforts to promote competitive balance in the MLB. By eliminating salary deferrals, the league would encourage greater financial transparency, ensuring teams operate within their means and players receive timely compensation.

Pro: Luxury Tax (opinion)

Since the MLB already employs a form of luxury tax, it's difficult to speculate on its potential impact. However, I do believe the luxury tax is a beneficial system for the MLB, especially considering the unlikelihood of a salary cap being introduced. It serves as a partial measure to curb excessive spending by larger market teams. In my opinion, stricter regulations should limit overspending in free agency. The current luxury tax is a softer restriction, allowing teams to surpass the threshold by simply paying a fine. While it may be the best system available, the MLB could explore stronger measures to control spending.

Pro: Designated player rule (opinion)

The designated player rule could be effective in the MLB. While the specifics would differ, in principle, it could help level the playing field for small-market teams with lower revenue. This rule would limit the number of superstars that wealthier teams like the Dodgers, Yankees, and Mets could sign, providing other teams with better opportunities to acquire top talent. It could also reduce tanking, the strategy used by teams who, knowing they will not make the playoffs, intentionally perform poorly. This rule could give more teams a fighting chance, fostering greater competition throughout the season.

Pro: La Liga (opinion)

I believe that this rule could positively change MLB due to its current disparity in payrolls between teams just like La Liga. MLB teams are generally free to spend as they wish without a salary cap, leading to a significant disparity between teams like the Oakland Athletics, with a payroll of \$62 million, and the New York Mets, with \$316 million. If each team had a set salary cap that was fair to both large- and small-market teams, it could introduce more structure while allowing teams the flexibility to manage their finances effectively.

Pro: Reserve Clause (opinion)

I believe reinstating the reserve clause could benefit baseball, with some modifications to allow players more freedom if they are highly dissatisfied with their situation. Generally, the reserve clause promotes fairer player salaries by not only relying on the free-agent market. It also fosters player loyalty, creating local heroes and ensuring longer careers with individual teams. This could prevent a mass exodus of talent during free agency, giving more teams a chance to remain competitive. Although it is unlikely to be reintroduced back to MLB, the reserve clause could improve the league overall.

Pro: Salary arbitration (opinion)

In my personal opinion, salary arbitration benefits both players and teams by offering a very structured system for resolving salary disputes for players who are not yet eligible for free agency. It ensures fair compensation for players based on their performance relative to similar players, mainly when their negotiating power is limited. For teams, arbitration helps control costs, which provides a framework to prevent salaries from escalating excessively compared to free agency. It also encourages early settlements, leading to fewer disputes and smoother contract negotiations. This often results in multi-year deals that provide stability for both parties.

Pro: MLB qualifying offer (opinion)

The MLB qualifying offer system is a fair mechanism that benefits both players and teams. For players, it provides them with the opportunity to earn a high salary for an additional year while also allowing them to explore free agency. For teams, it offers security, ensuring they receive draft-pick compensation if a star-free agent declines the qualifying offer. This system fosters fairness and helps to promote balanced risk for both parties, encouraging player movement and stability.

6. What a Potential Salary Cap Could Look Like in MLB:

Designing a salary cap for Major League Baseball is a highly complex task, given the league's unique economics, the diversity of teams, and the desire to balance competition with the financial situation of each team. First off, like most other leagues, MLB's salary cap should be determined by a certain percentage of league revenue every year. For example, the NBA's 2024 salary cap was determined by taking roughly 1.2% of the league's revenue for the previous year and making it that year's cap for each team. Of course, the number would vary depending on the year and the amount of revenue the league generated. Since the NBA and NFL are two of the highest professional sports league revenue generators in the world outside of MLB, they are the easiest to compare to and will generate the most reasonable comparisons when comparing data to MLB. Generally, in higher revenue leagues like the NBA and NFL, the percentage of cap versus league revenue is usually around 1-2% of the league's revenue from the previous year. However, my recommendation for a salary cap 2025 based on the usage of roster rate, salary figures, player sharing, and league revenue would be blank. (changing metrics to % that players get rather than % that each team gets.)

For an actual MLB hard salary cap, data from other professional sports leagues worldwide, like the NFL, NBA, WNBA, and NHL were used. We used metrics such as total player salary, roster size, revenue of player revenue, league revenue, and salary cap per team to predict what a salary cap would be like if implemented into the MLB. The actual salary cap value for a potential 2024 MLB cap came out to around **\$189 million**, a value in between that of the NFL and the NBA. This number would fluctuate depending on the league revenue and financial situation for that year. However, we will generally see that an MLB salary cap would stay similar to this number, with a potential give or take of around \$40 million, creating a range of around \$180 million-\$220 million. This implementation of a salary cap will allow for highly increased competitive balance across the league and will require all teams to spend at least a certain amount of money.

If MLB were to create a salary cap, they would have to implement a hard salary floor that requires each team to spend at least 90% of the cap for that year, depending on its specific cap. This would decrease the incentive for teams to tank for draft picks and level the playing field, giving small market teams a chance to compete every year due to the spending limit it places on higher revenue teams. Tanking, or essentially losing the season on purpose, is a strategy many professional sports teams employ as they see themselves out of the playoffs and try to take advantage of the increasing benefits a losing team has to offer. MLB teams will often have payrolls well under \$100 million, like the 2024 Oakland Athletics, who had a payroll of \$47 million. Struggling teams like these find it hard to sign high-profile free agents, often turning to internal farm players or cheap, veteran options. These teams also limit their spending due to the knowledge that they most likely won't highly succeed that year and brand that year's goal a "rebuild," often resulting in a very bad team that decreases fan engagement. While a hard cap

will prevent teams from spending over a certain money threshold, teams that do not meet this hard salary floor will also be met with severe punishments. These punishments include either forfeiture of games that will heavily impact playoff races or the loss of draft picks, depending on the severity of the infraction. (trade deadline, cite NBA's trade salary cap rule)

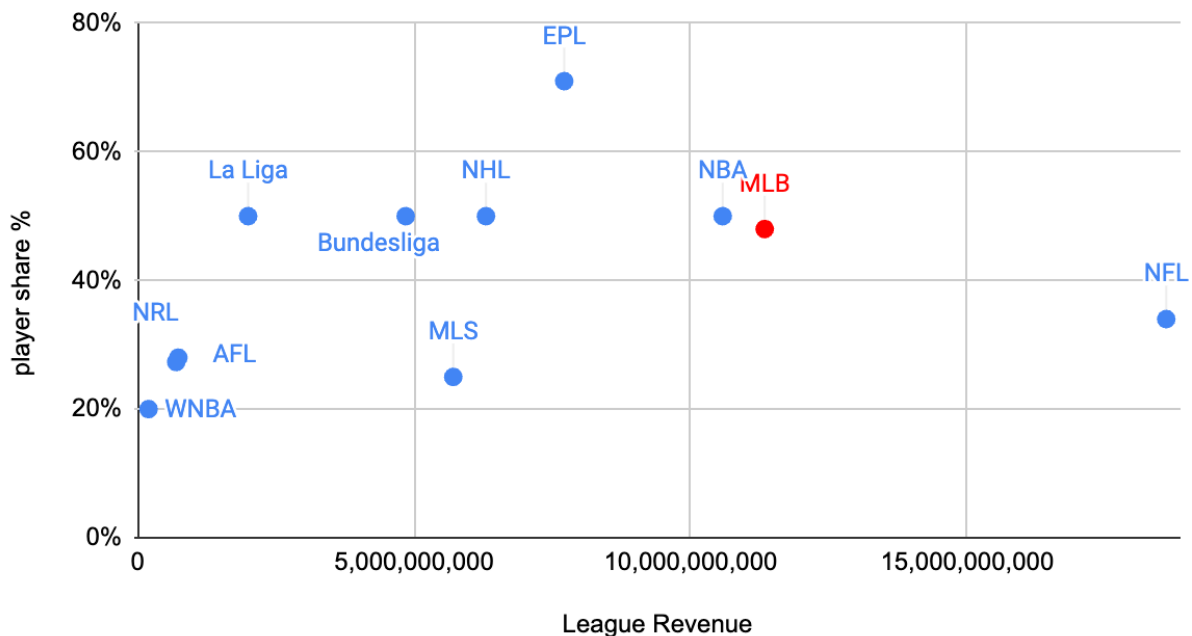
However, for the actual MLB salary cap, infractions for exceeding the cap would need to be extremely harsh, in order to keep teams in line and prevent teams like the New York Mets and Los Angeles Dodgers, two of the highest revenue-generating teams, from just simply accepting the penalty without much effect. As we see in the NBA, teams are taxed at an exponential rate based on the amount the salary cap was infringed by. However, for the cap's sake, MLB should implement a rule that specifies that for every 500,000 dollars that a team exceeds the cap by, they are required to forfeit one official regular season game, counting as a loss on the season for that respective team. On the contrary, teams are also required to meet a certain threshold known as the salary floor in order to prevent bad teams from tanking for draft picks. Teams that don't meet this salary limit would also be penalized with the loss of potential draft picks, with the timing of the pick lost determined by the amount that went under. While these infractions may seem harsh and unnecessary, if truly increased parity and competitive balance are wanted in the MLB, the league needs to take the necessary steps to do so to see the success of a hard salary cap in MLB.

While MLB should implement a hard salary cap in order to prevent overspending by big market teams, there should still be a few exceptions to the rule. One of those exceptions could be the homegrown player rule. If a team would like to retain a homegrown player (a player that they drafted) but does not have the cap space, they should be allowed to do so and at least match what other teams offer, even if they exceed the cap. This will allow for more team continuity and more local heroes among the fans. Many fan favorites among teams are players that have been with the team since they were drafted, like Clayton Kershaw, Buster Posey, and Bobby Witt Jr. So creating a homegrown player rule could benefit MLB in many ways and attract more fans to the sport as well. While this homegrown player rule would benefit MLB, there would need to be a limit in place so teams do not abuse this rule. This limit would range from somewhere between 3-5 players that could fit this exception per team, allowing for some flexibility in a hard salary cap and more fan favorites among teams. The MLB's potential Homegrown Player Rule would allow teams to retain players they developed more easily by providing financial incentives. To qualify, a player must have at least five years of service time with the team since their MLB debut. After the standard six-year team control period, teams can sign eligible players to a homegrown contract. Under this rule, a percentage of the player's salary would not count against the team's payroll cap, offering cap relief. However, the team would need to pay the remaining portion of the contract fully. These contracts must be for a minimum of five years, encouraging

long-term commitments while ensuring teams remain financially accountable for their investments and have room to sign other star players without wasting their whole payroll on one. This system promotes player development and loyalty while maintaining a competitive balance.

Among the leagues that were used as comparisons, the range of the player share was from 20%-75%. The NFL and NBA, 2 of the highest revenue-generating leagues in the world, generated revenue exceeding \$10 billion in 2024. However, both also contain very different player revenue sharing systems, with the difference between the two coming out to 16% between the NBA's 50% and the NFL's 34% of the revenue that players are given. The MLB, with similar metrics to both of these leagues, matches well with this chart, fitting right in between the NFL and the NBA with a league-wide revenue of \$11 billion and the player share percentage at 48%, respectively, making it one of the more player-friendly leagues in the world. **(chart below)**

player share % vs. League Revenue



Additional Considerations

In this paper, I explored and discovered the details and workings of different professional sports leagues to see how they could be implemented into MLB while using this data to provide a potential salary cap that could be beneficial for MLB as well. However, some additional considerations that I could have overlooked that could have altered my research differently were the different leagues I explored. While I varied my research to many different leagues across

many different sports, I did not research such important leagues as the Cricket Indian Premier League or Major League Lacrosse, both of which could have provided more variation and data for my research.

Something that was also not considered heavily in my research was the player's perspective on a salary cap and the actual likelihood of a salary cap coming into play. Due to the restrictions a salary cap will put on a player's salary, flexibility, and team movement, players and teams alike are likely to resist such a monumental change to baseball's salary landscape. The MLB Players Association and large market team owners would likely oppose this, creating a big challenge due to the power these two groups hold over the MLB. While a salary cap could be very beneficial to enhanced league parity, it is unlikely due to the restrictions that the big market MLB teams and players will face. While a salary cap would increase the competitiveness and excitement of small market teams, affecting them heavily, I did not necessarily consider how this would affect the big city teams. If a hard cap was implemented, large-market MLB teams would likely need to focus more on homegrown talent while also seeing a decrease in revenue due to the limitations placed on signing star-free agents. In MLB and professional sports in general, star players drive fan engagement and team success due to jersey sales, increased attendance, and overall wins that these players play a part in. So if a hypothetical salary cap were imposed in the MLB, this would lower the "talent hogging" that these large market teams create, in turn decreasing the revenue these respective teams generate.

Conclusion

In conclusion, implementing a salary cap in Major League Baseball could help balance the competitive landscape and improve parity across the league, fostering a healthier and more engaging league overall. The current system, without any salary limitations, allows a handful of teams with the largest budgets to dominate player acquisition, making it increasingly difficult for smaller market teams to compete consistently. By examining comparable salary cap structures from other leagues, such as the NFL, NBA, and international leagues with caps, it becomes clear that certain restrictions can contribute to both fairness and financial structure. While it is unlikely that MLB will ever implement a salary cap due to the impact it will have on player salaries, an MLB salary cap is a highly interesting idea to think about, as well as the potential impacts of one. A salary cap, an extremely complex idea, consists of many intricate rules and regulations that are different and benefit each respective league differently, so we cannot always predict how a salary cap would fare in the MLB.

The introduction of a salary cap, combined with rules tailored for MLB's unique structure, like a luxury tax to incentivize fair spending, could create a more level playing field. However, it is also very important to acknowledge potential downsides of this, such as the risk of reduced

player salaries and union resistance, which must be addressed through collaborative league and player association negotiations. While some may argue that MLB's no-cap model supports player earnings and team flexibility, the drawbacks to competition cannot be ignored. A balanced approach that considers other leagues' effective strategies could bridge this divide. By developing a fair, strategic salary cap system, MLB can foster competitive balance, fan engagement, and more long-term sustainability in a way that benefits teams, players, and fans alike.

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