



Dodging the Draft: Analyzing the Competitive Impact of Baseball's Amateur Draft

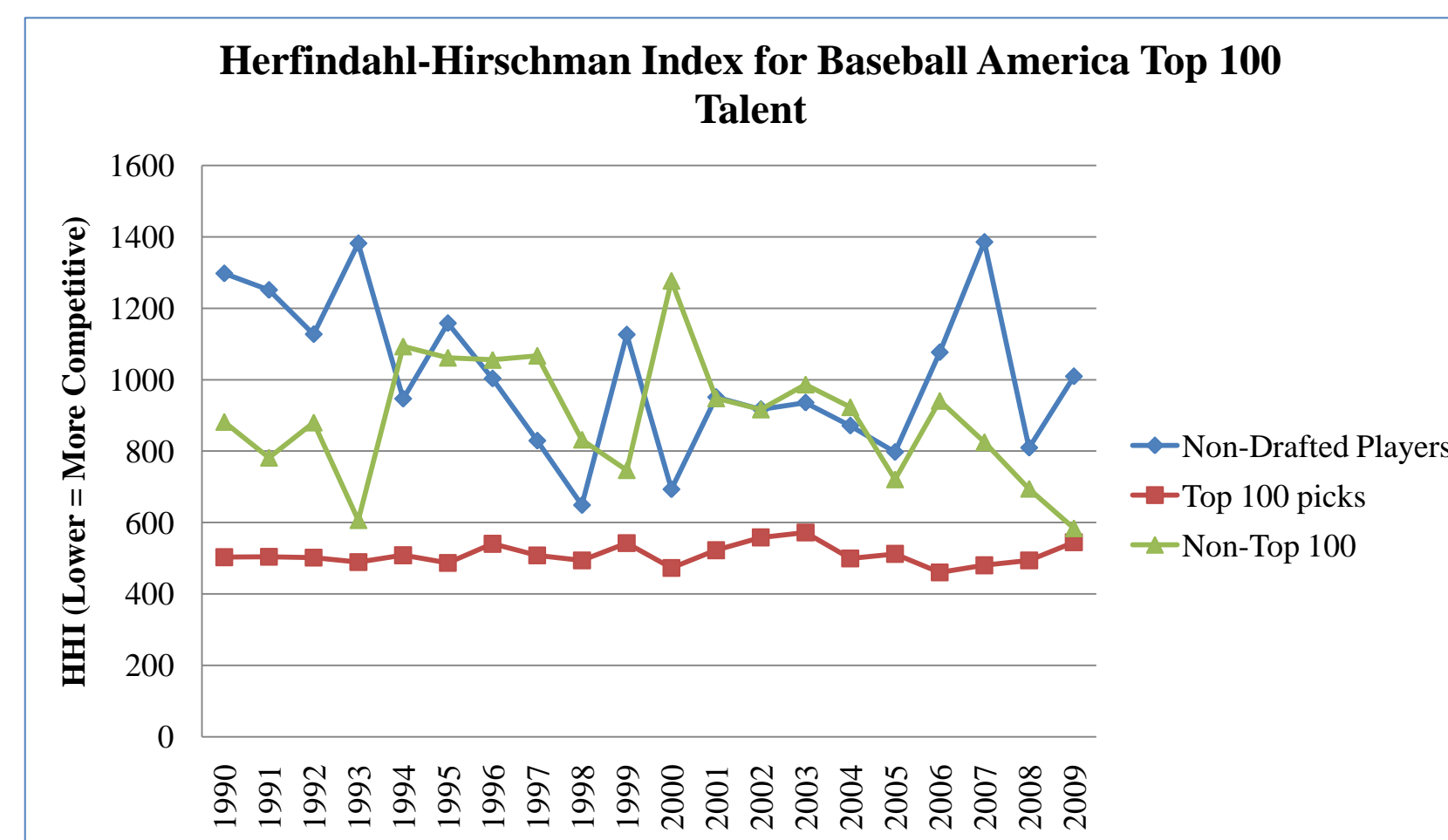
Stephen Argeris/Willkie Farr & Gallagher LLP and New York University/steveargeris@gmail.com

Abstract:

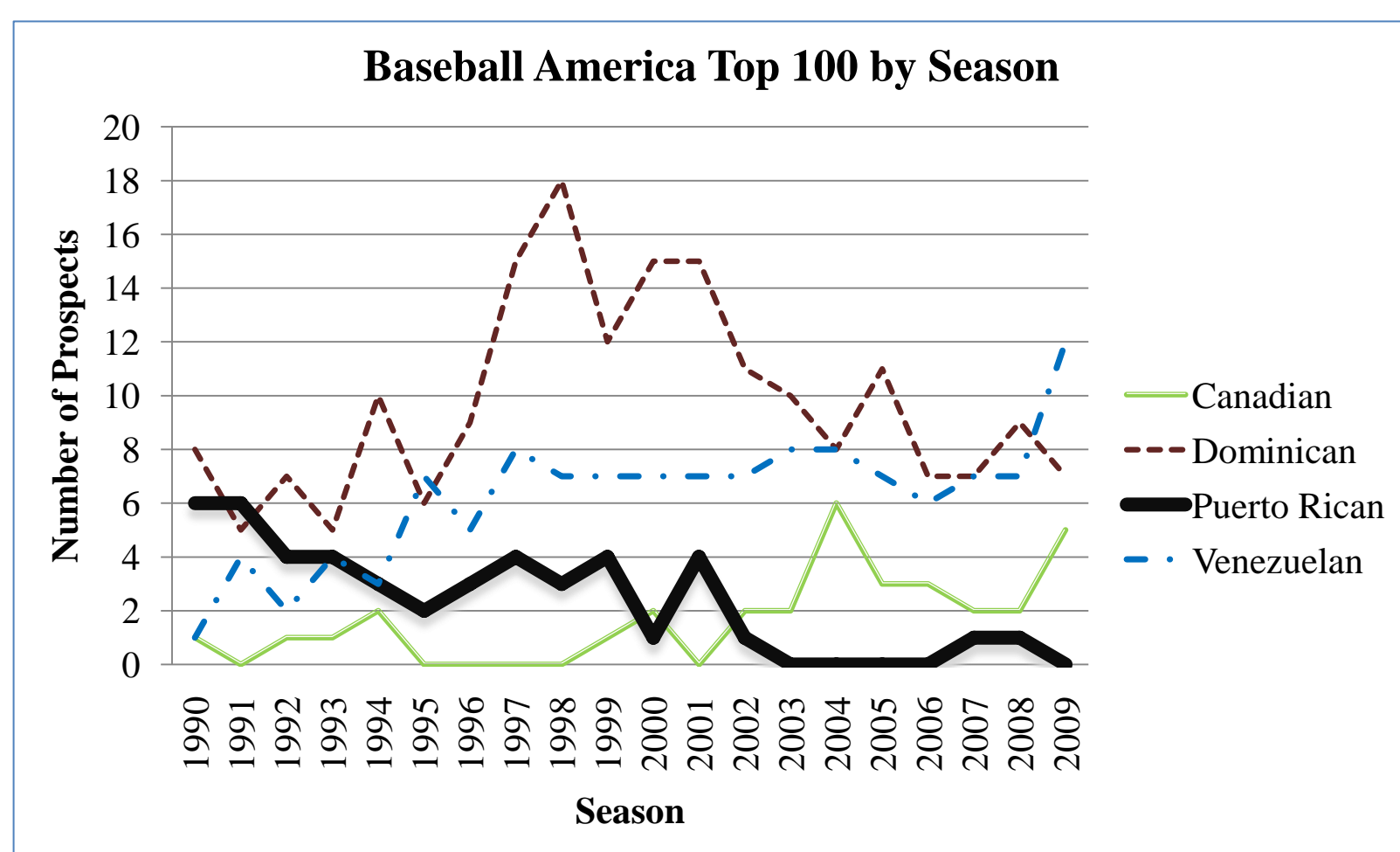
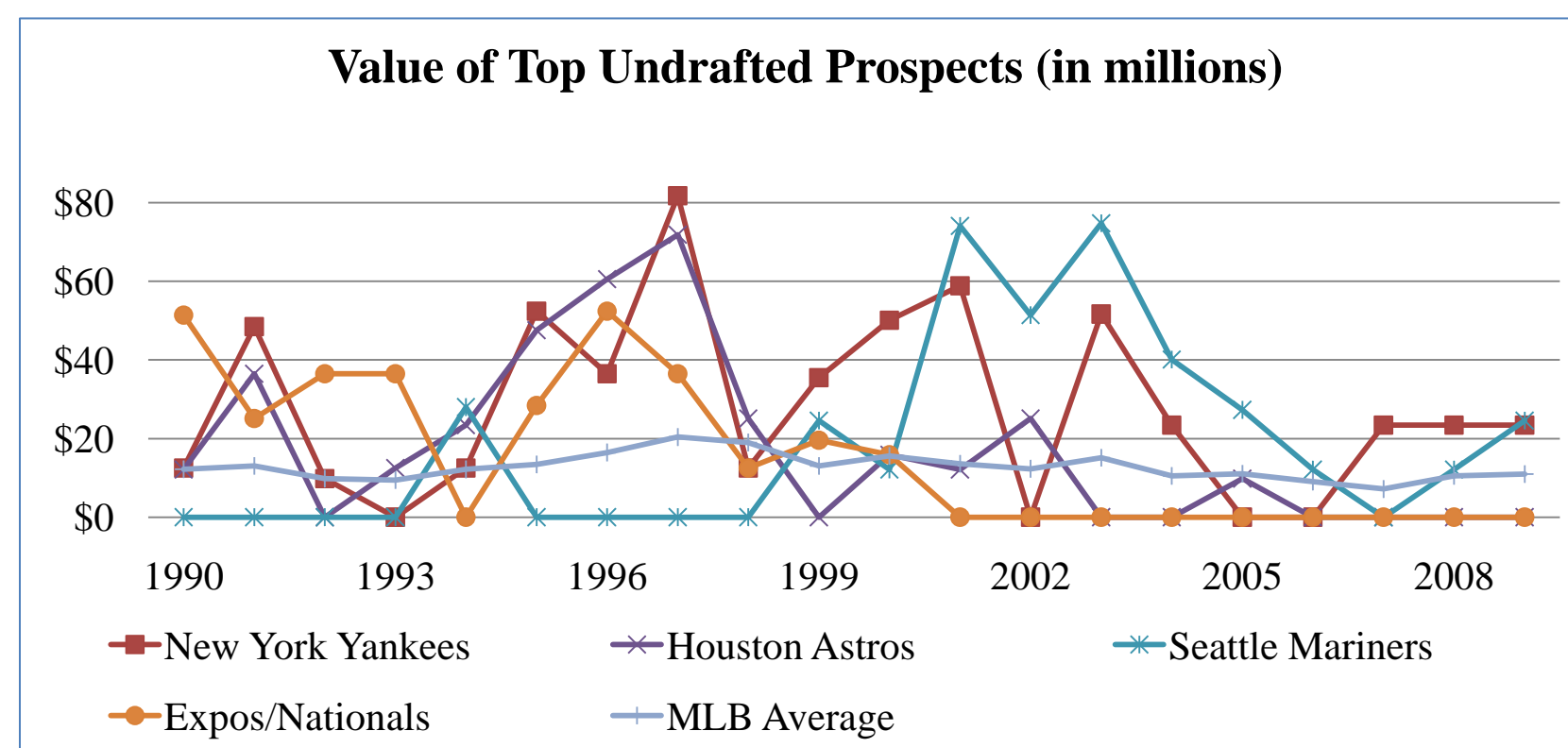
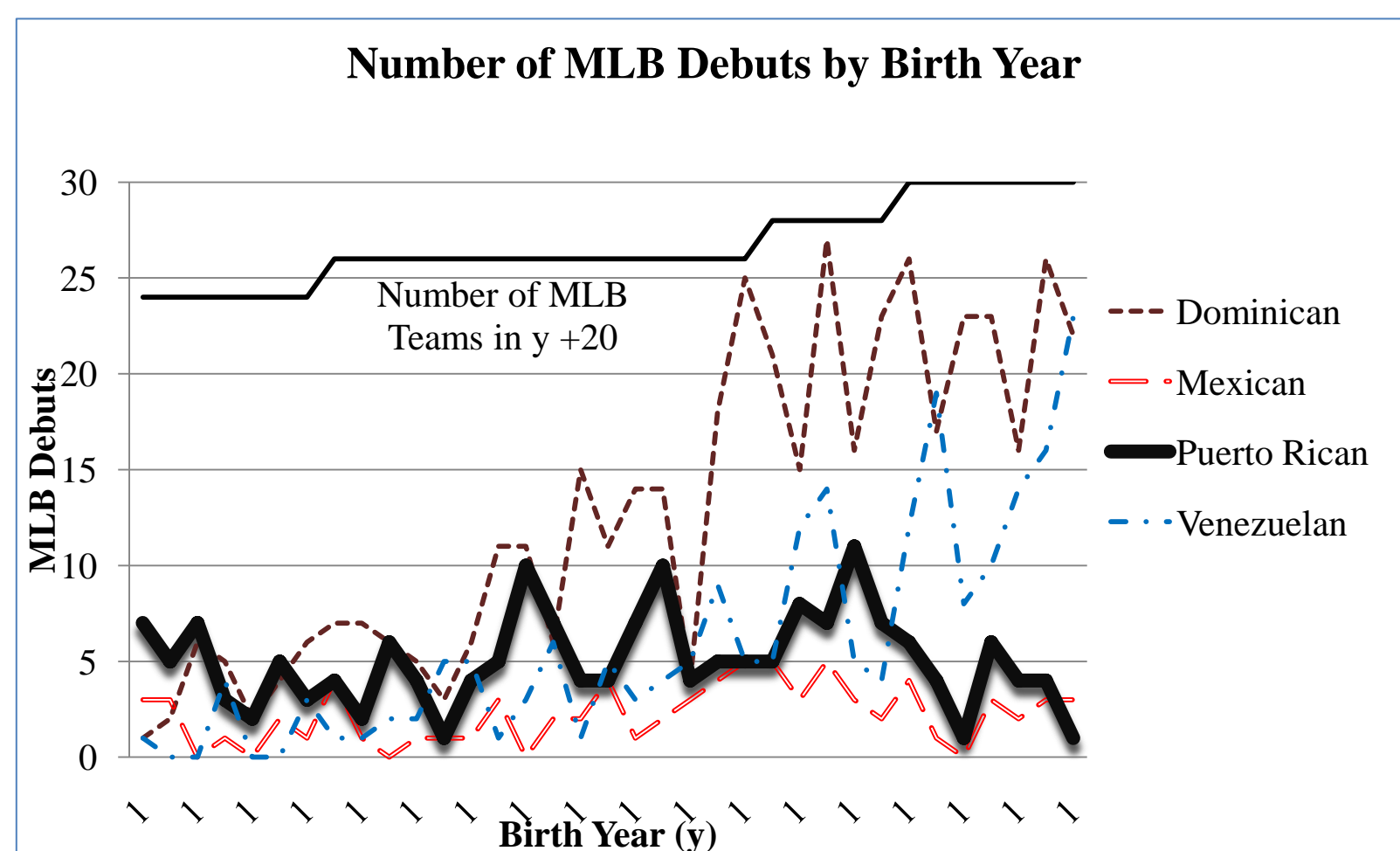
In general, the draft has been used to curb amateur players' salaries since its inception in 1965, expanding to include U.S.-educated foreign players, Puerto Ricans and Canadians over the past 25 years. Amid growing discussion of its expansion to include Caribbean and Asian players after a string of high-dollar bonuses, it's worth considering how well the draft distributes talent, both relatively known commodities (the top 100 picks in the draft) and relatively unknown (16-year-olds from the Dominican Republic and Venezuela). Also, it's worth looking at the effect the draft has had on Puerto Rico, which was included in 1989, and Canada, which joined in 1992.

How the Draft Affected Puerto Rico

In short: a rapid decline in the quality and quantity of players coincided with Puerto Rico's arrival in the draft---and the exact opposite for Venezuelans at the same time. The draft affected Canada far differently, with far more (and better) players emerging about a decade ago than ever before.



The HHI is a common economic measure of market concentration. In the case of baseball talent, as measured by estimates offered by Wang (2008), the draft is efficient at distributing the top-tier talent of the draft. As the draft wears on, however, there is less talent to find and greater volatility. Similarly, the pool of talent outside the draft is similarly less evenly distributed. This is not inherently bad---all three "markets" are competitive by most definitions, and the usual worry about lack of competition (the Yankees' \$\$) is offset (somewhat) by the high volatility of young foreign players and adept scouting by its peers:



Potential Solutions

- Limit the draft to three rounds plus compensatory picks for lost free agents.
- Players would only be eligible for the draft between ages 18 and 22.
- Drafted players sign major league contracts (and thus count for 40-man roster).
- Drafted players have hard-slotted bonuses.
- The number of options a team has on a player would depend on his age at signing.
- Undrafted players younger than 22 are free agents, but bonuses capped at 95% of final pick's bonus.
- Draft-and-follow rights for all drafted players who attend college.
- International high-bonus players sign major league contracts (and thus count for 40-man roster).
- Limit the total number of players under contract to an organization at any given time.
- Restore the Rule 5 draft to its pre-2006 standards, giving teams three or four years to evaluate players.