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NFL Owners Approve Labor Pact, Raising Salary Cap

Revenue Sharing Also to Be Increased

By Mark Maske
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GRAPEVINE, Tex., March 8 -- The NFL narrowly avoided a labor confrontation when its team owners voted Wednesday night to approve a six-year extension of their collective bargaining agreement with the players' union, overhauling the way the thriving league does business.

The owners, after two days of sometimes-heated deliberations at a Dallas-Fort Worth airport hotel and plenty of behind-the-scenes lobbying by Commissioner Paul Tagliabue, also agreed to a system that increases the amount of locally generated revenue shared by the teams. That eases the concerns of some owners about a growing economic divide between the 32 clubs.

"I am pleased," Tagliabue said. "And more than pleased, I am relieved."

The deal runs through the 2011 season and sets the salary cap for players at about 59.5 percent of a greatly expanded pool of league revenue. The owners' ratification of the deal, which was proposed by the union and delivered to the owners Tuesday by Tagliabue, came by a 30-2 vote, with the Buffalo Bills and Cincinnati Bengals voting against it.

"It was a good compromise," said Indianapolis Colts owner Jim Irsay, "and we're all happy to have labor peace again."

The immediate effect is that teams that had been facing a salary cap crunch, including the Washington Redskins, have more wiggle room to retain their current players and sign new ones. The labor extension raises the cap to about $102 million per team next season -- up from the $94.5 million per club that was allotted before the labor extension -- and $109 million in 2007. The deal also eases some restrictive salary cap rules, related to the expiration of the cap, that would have taken effect and further hindered teams in negotiating with players.

The league's free agent market was expected to be pushed back 48 hours to 12:01 a.m. Saturday and teams would have to be under the new salary cap by Friday night.

Tagliabue and Gene Upshaw, executive director of the NFL Players Association, agreed Monday that there would be no further negotiations and this proposal would be a take-it-

or-leave-it offer for the owners. Although the league had agreed to give Upshaw an answer by 8 p.m. Eastern time Wednesday, Upshaw, who is in Hawaii for a meeting of the players' executive board, waited about 35 minutes beyond that, then got the response for which he had hoped.

"This agreement is not about one side winning or losing," Upshaw said in a written statement. "Ultimately, it is about what is best for the players, the owners and the fans. . . . Moving forward, this new agreement gives us the opportunity to continue our unprecedented success and growth."

When Tagliabue presented the proposal to owners Tuesday, he told them that many of them had not been around for the league's labor strife in the 1980s and urged them not to repeat it. He told them it was important for them to resolve this dispute and find a way to work with the players.

People around the league were convinced before this meeting that Tagliabue would do all he could to get the proposal ratified, and owners said that the commissioner indeed performed plenty of arm-twisting. The revenue-sharing plan came together during an afternoon meeting Wednesday in which three owners -- the Denver Broncos' Pat Bowlen, the New York Giants' John Mara and the Carolina Panthers' Jerry Richardson -- met with Tagliabue to blend two proposals that were under consideration, one by the New York Jets and New England Patriots and another by the Pittsburgh Steelers and Baltimore Ravens.

The result was a plan that will transfer an average of about $150 million per season from high-revenue teams to low-revenue clubs. The top 15 revenue-generating clubs will have to pay, and the burden will be particularly heavy for top-five franchises such as the Redskins.

"It's great for the league," Redskins owner Daniel Snyder said. "I'm happy for the NFL and for all our fans and the players. We can keep building on what's been created. We are a top-five team contributing the most [but] we're believers in the competitive balance."

Bills owner Ralph Wilson said he voted against the proposal because its revenue-sharing component was so complicated.

"It's a very complex proposal, and I didn't really understand," Wilson said. "I didn't think I was a dropout, but maybe I am."

The recent labor difficulties had been unusual for the NFL, which had benefited from a cooperative relationship between the owners and the union since the early '90s while cementing its status as the nation's most prosperous sports league. Now the league has labor peace to go with a set of new national television contracts that will be worth almost $4 billion annually beginning next season.

The twin labor and revenue-sharing disputes arose from the fact that a group of about eight teams has far surpassed the other clubs in revenue-generating capabilities in recent years. All 32 teams share national revenue equally. But Snyder and the owners of the other high-revenue franchises tapped into revenue streams -- from sources that include stadium naming rights, luxury boxes and local sponsorships -- that didn't have to be shared with the other clubs. Owners of low-revenue teams expressed concerns that the growing disparity eventually could lead to a competitive imbalance and sought to overhaul the revenue-sharing system to have more local revenue shared. Owners of high-revenue teams resisted, arguing that they had paid premium prices for their franchises and should not have to further subsidize other clubs that might be, in some cases, mismanaged.

Upshaw, meantime, sought to have the new revenue included in the pool from which the players are paid. Before this settlement, the players received about 65 percent of a smaller revenue pool known as defined gross revenue. The new, larger revenue pool is called total football revenue, and the players are to receive approximately 59.5 percent of it.

The new deal contains a mechanism to adjust the salary cap based on how much the teams collectively spend on player compensation. If the teams collectively spend more than the salary cap in a season -- which is possible since the cap is a flexible spending limit -- the cap would be automatically adjusted downward in subsequent seasons. If the teams collectively spend less than the salary cap in a season, the cap would be automatically adjusted upward in the future.

The previous labor deal would have kept the salary cap in place through the 2006 season, then there would have been a season without a salary cap in 2007 before the agreement expired. Upshaw had said that if this proposal was rejected by the owners, he would begin discussing with the players the possibility of decertifying the union as a tactic to prevent a lockout by the owners in 2008.

"We all know that deadlines are critical to making decisions," said Dallas Cowboys owner Jerry Jones, whose team also will be a major revenue-sharing contributor. "If I'm going to get my fanny kicked, I can put that off until another day. . . . You had to have your league hat on to make this work. And then you had to go one step further than that and think about the fans."

Negotiations broke down several times in recent weeks but the two sides repeatedly pushed back the opening of free agency. Upshaw had said that once free agency began, he was done bargaining because the players would have been that much closer to a season without a salary cap.

Evaluation
By Aaron Kwon

The recent agreement over the NFL Labor Pact marks a monumental phase in the history of the NFL. The Players Union and the NFL Team Owners have reached an agreement that may save the thriving business billions of dollars. By agreeing to the Labor Pact, the NFL is able to avoid a costly strike. As a result, the players, the owners, and the fans are extremely happy. The newly ratified labor contract, which deals with such things as salary cap and revenue distribution, is very complicated. And because it deals with massive amounts of money and revenue, the labor contract definitely has implications of the economic themes studied in class.

First of all, the dispute over the labor contract is a classic example of a bilateral monopoly, which is a market with one seller and one buyer. In this case, the Players Union is the monopolistic firm because the players are the people that are supplying the "work". Because it takes great skill and athleticism to play in the NFL, these players are a rare commodity. Thus, they are able to charge extremely high amounts of money to the buyers (owners). The monopsonicc firm, in this case, is the group of owners. There is a set number of teams in the NFL, which means that players can only get hired by these relatively few teams. Because the NFL is exclusive in terms of number of players on each roster, the owners have the power to set their price lower than the perfectly competitive price. A major concern of the labor contract was the salary cap, which is the maximum amount of money that a team could spend on players. The Players Union would like a higher salary cap. The owners, on the other hand, would ideally want a lower salary cap so that they wouldn't have to pay so much. So what happened when these two firms met head-on? The two firms were able to negotiate and compromise. The new salary cap satisfies both the owners and the players.

In regards to the salary cap, several economic themes are noticeable from this application. Under this contract, the salary cap is set at 59.5% of the total league revenue. This stipulation of the contract implies that there are incentives for both the players and the owners. If the owners are going to pay this set amount to their players, then the owners have the incentive to boost their revenue. That way, they can spend more money on the top players and win a championship. Likewise, players have the incentive to practice and play harder because if they play well, then revenue will increase. Consequently, the salary cap will also increase, which means higher pay for the players. Another implication comes from a different stipulation of the labor contract. The contract states that a team that goes over the salary cap will be forced to pay a luxury tax to the league. This is to promote a fair and competitive playing ground. The tax discourages the few owners that wish to unfairly contract all the best players to win the championship. If a team does, in fact, disobey the rule, then they will pay a luxury tax, which will go the league. This luxury tax, which is not a typical ad-valorem tax, results in a transfer of economic rents.

Another theme that is apparent is fair or perfect competition between the teams. Under the new contract, the top 15 revenue-generating teams will transfer an average of $150 million per season to the bottom 17 revenue-generating teams. This new rule was placed once again to encourage and promote perfect competition. The league does not want the most popular teams to dominate the free agency market by contracting all of the top players. By forcing the top revenue generating teams to transfer money, the league is able to ensure that all teams get a fair chance to contract good players. In terms of economics, this means that the no individual team (firm) will be able to dominate the free agency (market).

By analyzing current events such as the NFL Labor Pact, is it evident that economics plays a huge role in our lives.