

# A Word on MLB Contracts

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After a series of seemingly uneventful offseasons, MLB front offices have stolen headlines as of late with the combination of over \$1 billion spent on 3 mega contracts for young star power. The rise of free agency has captivated the sports world in the 21<sup>st</sup> century, allowing players to have more mobility and choice regarding where they play than ever before. With that being said, players in the free agency market essentially hold a bidding war for their services, often times receiving ridiculously inflated deals due to such competition. The increased access of players to test their value on the market has served player's bank accounts well in most cases, however the massive amounts of money attached to these free agency contracts has gone on to hurt the teams who write their checks.

Coming into the 2019 offseason, it was suspected around the league that MLB would experience its first \$300 million contract or maybe even a pair of them. Manny Machado was the first to ink such a deal, signing a 10-year, \$300 million deal with the San Diego Padres in February. A couple weeks later, Bryce Harper signed a 13-year, \$330 million deal with the Phillies, becoming the second player to break the ceiling of biggest contract in the history of the sport. Though both of these gargantuan contracts ended up being larger than many expected, it wasn't a huge surprise that deals of this magnitude were completed for the two big free agents on the market.

The surprise of the offseason rolled in after the Machado and Harper signings went through, when news out of Anaheim broke that the Angels were signing Center Fielder Mike Trout to an extension. On March 19, he signed a 12-year, \$430 million contract extension, once again shifting the title of highest paid player for the third time in just over a month. With this deal, the MLB not only experienced its first \$300 million man, but shockingly its first \$400 million man in the same offseason. All three of these signings far exceed the old record of richest contract in MLB history, surpassing the 10-year \$275 million contract of Alex Rodriguez with the New York Yankees.

After laying out all of the facts and details of the contracts, I cannot fathom why any MLB front office who seeks to be a contender would take on such absurd and extrapolated deals. With the ever-expanding spectrum of evidence, front office executives should understand that giant contracts in sports simply do not go as planned. Very similar in nature to these deals, the most notable failure by an organization stuck in a mega contract is the Angels situation with Albert Pujols. After underperforming in all but 2 seasons on his 10-year, \$240 million deal, the team is set to pay \$28 million in his age 39 season to serve as a middle of the road Designated Hitter. Not only are they on the hook for his huge salary in 2019 but will also pay him even more per season until 2022 when he is 42 years old. In order to provide context, I will compare Pujols stats since signing his rip-off of a deal with the Angels to a distinguished All-Star 1<sup>st</sup> Baseman during the same span.

| Statistic (2012-2018) | Albert Pujols | Player X    |
|-----------------------|---------------|-------------|
| Batting Average       | <b>.260</b>   | <b>.297</b> |
| Hits                  | <b>1009</b>   | <b>1182</b> |
| Home Runs             | <b>188</b>    | <b>209</b>  |
| RBI                   | <b>653</b>    | <b>710</b>  |
| All Star Appearances  | <b>1</b>      | <b>6</b>    |

Although there is a clear advantage on one side of the table, the numbers throughout the entirety of the table aren't super tilted in one direction aside from All-Star appearances. For those of you curious, the comparison player in this case (Player X) was Paul Goldschmidt of the Arizona Diamondbacks. One astonishing difference not presented in the table however are the contracts of both players during this span. Unlike the Angels, the Diamondbacks sought to pay their star a lucrative and deserved extension for his contribution to the team, however kept the goal of putting pieces around him in mind. For this reason, the team signed Goldschmidt to a 5-year, \$130 million extension through his age 36 season. In short, Arizona's deal with their slugger is far superior to the disaster that the Angels have on their hand with a former star well past his prime. Not only are they paying less for greater production across the board, but they also aren't trapped in the contract until the player is above the age of 40.

This example is one of many across the league, as well as across multiple sports that proves the ideology that short term contracts are more team-friendly, as they eliminate the liabilities of long-term injuries and underperformance. Though many players seek security and

gigantic paydays to reward their past accolades, they often burden the organization who takes them on in the long run. Overpaying stars in sports doesn't motivate the game's best to stride for new highs in their performance, and instead removes the competitive edge that ultimately leads to complacency and mediocracy.

The point of this argument is not to discard the idea that signing stars in an organization helps lead to success in baseball and sports in general. All championship teams usually feature at least a couple or a handful of All-Star caliber players at multiple key positions. None of these players however are the highest paid player at their position in the league, but instead are paid fair value or just under that mark for their production. This holds true of all 8 playoff teams from the 2018 season, who loaded their arsenal of stars to build a dominant lineup from top to bottom. Not a single one of these teams pays their star players the highest salary at their respective positions, but instead leaves it to the bottom feeders to claim headlines in the Spring rather than the Postseason.

Teams that compose their roster with a multitude of outside free agent signings may feature name value or generate offseason buzz in hypothetical lineups, however always seem to go silent once the season rolls around. The winning formula for years in established organizations like the Red Sox or Dodgers is to bring back the same core of mainstay pieces year in and year out. Each offseason, they might sprinkle in one or two big time talents to elevate the ceiling of the team, without compromising the underrated dimension of culture in the locker room.

Scoping back into the three major contracts discussed earlier, each of the 3 players will hover around the \$30 million salary for the next decade or beyond. It should also be mentioned that unlike other leagues like the NFL, MLB contracts are fully guaranteed and offer little to no viable opt out opportunities should the contract not pan out. To be clear, it is fair to assume that the front end of all of these deals will probably work, meaning there is a reasonable chance the players will play to the level of their pay for the first half of the contract. It is the latter half of these expensive contracts that are destined to haunt the organization in the waning days of their star's career. After all, paying \$30 million or more per year for the services of a 38-year old 5 years past his prime isn't in the cards for any team seeking contention.

In conclusion, the MLB contracts have earned headlines this offseason for all the wrong reasons. Each player is a single injury away from defaulting the nine figure investment of their franchise into a flop in a matter of one play. Drawing on the old investment principle, diversifying risk into multiple avenues decreases the risk and negative effects of a single failure. Between Machado, Harper, and Trout, it is very reasonable to assume a plentiful collection of All-Star games, Silver Sluggers, and Gold Gloves collected by the group in the near future. Despite the culmination of these individual accomplishments, fans should not expect to see any of these ball clubs come October. As history has shown, the same group of dynasties who utilize timeless winning formulas tend to collect the Commissioner's Trophy year after year. They don't necessarily feature the best hitter in baseball or highest paid player in the league, but focus on the combination of elite pitching, clutch bats, and established culture that is built over long periods of time.