

Written by Pete Toms
Sunday, 16 November 2008 22:22



MLB implemented changes to the Rule IV draft in the most recent round of CBA negotiations, with the intent that the changes would result in a lowering of signing bonuses doled out to drafted amateurs. Two drafts have since been conducted and the changes have not lowered signing bonuses, leading to speculation that MLB will attempt to negotiate mandated slotting of draft picks in the next CBA. (The CBA expires in December, 2011). Paradoxically, while dissatisfied with the inflationary impact the Rule IV draft has had on acquiring labor in North America, it appears MLB will attempt to expand the draft to Latin America, and beyond in an attempt to control the spiraling costs of signing amateur players not subject to the draft.

The concept of a worldwide draft was first proposed as part of the 2002 CBA, but negotiations between management and the MLBPA withered on the vine.

The current CBA – which took effect in December 2006 – included an earlier signing deadline of August 15 for players chosen in the Rule IV / *aka* June draft. Combined with another change that awards compensation in the following year's draft for teams failing to sign their pick, management was to be better positioned in negotiations with drafted amateurs. In addition, prior to the 2007 draft, Commissioner Selig exerted pressure on clubs to adhere to recommended "draft slot" bonuses that were set 10% lower than the previous year. Some clubs complied, but the overall impact of the rule changes and "slot recommendations" was negligible.

Baseball America reported, *"There were 184 picks in the first five rounds in 2007, and 171 of them signed, receiving an average bonus of \$685,328. Last year, 179 of the first 184 picks agreed to terms, getting an average bonus of \$662,531. So despite the 10 percent reduction in slots, the bonuses rose 3 percent."* Sports Business Journal reported, *"Overall average signing bonuses for 2007 first-round draft picks hit their highest mark in five years, at nearly \$2.1 million..."*

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Commissioner Selig relaxed his efforts to control spending in the 08 draft and an increased amount of dollars were awarded to drafted players. In August, Forbes reporter Tom Van Riper wrote, *"The league made a concerted effort to change things this year, encouraging small-market teams picking near the top to draft the best talent and pay out expensive bonuses."* In October, Baseball America reported, *"Teams combined to spend \$186.5 million on draft bonuses in 2008, an amount believed to be a record and up 23 percent from the \$151.8 million they shelled out in 2007."*

The past two drafts have seen a trend of small and mid market franchises outspending many larger market franchises. The Rays and Nationals ranked #2 and #5 in dollars spent on signing bonuses in the 07 draft with the Royals and Rangers also in the top 10. The 08 draft saw an increase in this behaviour with the Royals, Rays and Pirates all in the top 4 along with the Giants, Brewers, Rangers, Twins and Indians all in the top 10. The shift amongst small and mid market teams to compete more aggressively in the Rule IV draft is perhaps a reaction to the diminishing number of quality free agents available in recent years. According to Maury Brown, *"...clubs are wrapping up contracts more often now – signing players to extensions, which in turn lowers the number of players in the free agency pool...."*

And,

"What has happened over the years is a case of viewing free agency as an inefficient avenue in which to build contenders."

Increasing investments in the Rule IV draft might also be attributed to the better results that clubs are garnering in the draft, perhaps due to the increased emphasis on "objective analysis" in evaluating amateur talent. In June of this year, Rob Neyer wrote on his ESPN blog;

Anyway, it seems to me that teams are doing a lot better in the draft than they used to.....In the 1970s, an entire first round might produce four or five good major leaguers. Probably an average of six or seven per draft (first round only).

In 2002, the first round produced [B.J. Upton](#) , [Zack Greinke](#) , [Prince Fielder](#) , [Jeff Francis](#) , [Jeremy Hermida](#)

,
[Joe Saunders](#)

,
[Khalil Greene](#)

,
[Scott Kazmir](#)

,
[Nick Swisher](#)

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,
[Cole Hamels](#)

,
[James Loney](#)

,
[Jeremy Guthrie](#)

,
[Jeff Francoeur](#)

,
[Joe Blanton](#)

and

[Matt Cain](#)

. That's 15 guys who already have done good things in the majors. I suppose two or three of them will fall by the wayside soon, but they might be replaced by first-rounders who haven't made it yet.

In 2003, the first round produced [Delmon Young](#), [Rickie Weeks](#), [Nick Markakis](#), [John Danks](#), [La stings Milledge](#), [La](#)

,
[Aaron Hill](#)

,
[David Murphy](#)

,
[Conor Jackson](#)

,
[Chad Cordero](#)

,
[Chad Billingsley](#)

, [Eric Duncan](#) and

[Carlos Quentin](#)

. That's 12 guys, and does not include [Ian Stewart](#)

,
[Michael Aubrey](#)

,
[Brandon Wood](#)

or

[Daric Barton](#)

, all of whom are highly regarded young hitters.

What does it mean?...I think it also means teams have become more systematic -- and thus

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more effective -- in their evaluation of amateur players. ...

Some observers believe that allowing the trading of draft picks would be beneficial to clubs, contributing to more competitive balance by providing clubs more flexibility in maximizing the value of their pick(s). Keith Law of ESPN wrote prior to this years' Rule IV draft, *"Small-market or just plain cheap teams selecting near the top of the draft are hostages of their situations. If the best player on the board wants a bonus well above slot for that teams' position, and they are unwilling or unable to pay, they must select the best player on the board whom they can afford, but in the process they have no way to recover the value they lost from having to bypass the best player. Allowing these teams to trade picks would mean that, for example, the Pirates, picking fourth last year, could have received value in excess of what they actually got (selecting Daniel Moskos, who wasn't one of the 10 best players in the draft) by trading their pick to a team that coveted Rick Porcello or Matt Wieters, two high-slot players still available for the Pirates' pick."*

At the same time MLB is spending record amounts of money on drafted players it is spending record amounts of money on free agent amateur players in Latin America, principally in the Dominican Republic. In a *Baseball America* piece, Ben Badler quoted an unnamed scouting director, *"I didn't think that I would say this three years ago, but Latin America is becoming more expensive than the draft."*

Five of the Top 10 International Signing Bonuses, including the top 3, were awarded in 2008. The A's awarded Dominican Michel Inoa a \$4.25 million signing bonus. Prior to 2008 the previous high was \$2.44 million. In September, *ESPN*

published figures provided by MLB claiming that

"..the average signing bonus given to prospects in the Dominican Republic has more than tripled." MLB claims the average signing bonus has ballooned to approximately \$108,000 in 08, up from an average of approximately \$29,000 in 04. An unnamed AL executive was quoted in Baseball America in July, "We're going to crash and burn because these numbers are ridiculous. Ultimately something needs to change."

Both Commissioner Selig and MLB President and COO Bob DuPuy have been very public this season in their support for expanding the draft to Latin American countries. During an All Star Game Q&A with baseball media, Selig was quoted, *"I don't think it's any secret that support for a worldwide draft is growing amongst all baseball people," Selig said. "I've had a lot of people, including a significant number of general managers, say to me in the last couple of months that they wish we had a worldwide draft. I think that's something we will discuss in the future.*

" DuPuy was quoted in an

ESPN

article published in September,

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"There's almost total unanimity from the clubs' standpoint that a worldwide draft would be a good thing."

MLB's public desire to implement an amateur draft in Latin America has been accompanied by a season's worth of reports in high profile baseball publications – *USA Today*, *ESPN*, *Baseball America* – detailing abuses suffered by young Latin baseball players, particularly in the Dominican Republic. The reporting is in reaction to investigations launched by both the FBI and MLB into “bonus skimming / kickback schemes” involving scouts employed by MLB clubs and local buscons/player agents. The White Sox, Yankees and Red Sox all dismissed employees in their international scouting operations this season over alleged improprieties. At the same time, much attention has been brought to steroid use amongst Dominican amateur players.

USA Toda

y reported that the Dominican Summer League,

“...made up 15% of all players under contract to major league teams at the start of the season, yet they accounted for nearly 60% (40 of 68) of positive drug tests this year.” Again, the media reports affix much of the blame to the buscon culture. From Baseball America, “Dodgers scout Ralph Avila, who helped open the floodgates to Dominican talent when he established the first training academy there 22 years ago, fears things have gotten so out of hand that the only way to bring order would be to make Dominican players subject to the draft, an idea that has been discussed before.”

If the Rule IV draft is expanded to include Latin American countries, what impacts will it have on the baseball labor market? The introduction of the draft in 1965 is often linked to a corresponding decline in the percentage of big league players recruited from the US and the increase in big league players recruited from Latin America. A 2002 Emory University Law School analysis on the impacts of the draft *“U.S. Labor Market Regulation and the Export of Employment: Major League Baseball Replaces U.S. Players with Foreigners”*, concluded, *“Our analysis of the market for professional baseball players shows that domestic labor-market restrictions have reduced domestic employment, especially of African-Americans, with employers instead shifting employment overseas. Our theoretical model suggests that, in 1965, the imposition of both the player draft and stricter age minimums for hiring U.S. players reduced the benefits of signing and developing U.S. players, especially players from disadvantaged groups such as African-Americans. Our empirical analysis, using a new data set, then shows that, in response, teams have shifted to developing and hiring players from other countries where the regulations do not apply, such as Latin America.”* Jimmie Lee Solomon, MLB executive vice president for baseball operations, was quoted last year in a *CNNMoney.com* article. *“Clubs do leverage their dollars much better if they develop a kid in a country not subject to the draft. Those decisions are purely business decisions, very pragmatic business decisions.”*

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The discussion in the baseball media this season concerning expansion of the draft to Latin America has led to reflections on the affects of the introduction of the draft to Puerto Rico in 1989. Again from *Baseball America*;

It has happened before, in 1989, when baseball, in an effort to rein in bonuses, expanded its amateur draft to include Puerto Rico. Almost 20 years later, many in Puerto Rico blame that decision for the demise of baseball on the island, where the once-prestigious winter league wasn't even able to play last season.

"Between the baseball academies and the Dominican Summer League, we built la gallina de oro, the golden hen," Avila said. "Now it's a real mess. The market is crazy.

"A worldwide draft would kill la gallina de oro."

And from the aforementioned Emory University Law School analysis; *"In the 1990s, Puerto Rico has been the one exception to the increasing number of Latin-born players in MLB, providing declining numbers of players.....The draft again explains this....Teams quickly cut back their scouting and development efforts in Puerto Rico....In less than a decade after 1989, the number of Puerto Rican players signed per year had dropped more than 40%."*

The competition to acquire talent in Latin countries has led to multi million dollar investments by MLB clubs in training facilities/baseball academies, again mostly in the Dominican Republic. The *SportsBusiness Journal* reported that the Padres recently opened their training academy, investing \$8 million in the project. *"This does quite a number of things for us," said Padres Chief Executive Sandy Alderson. "There are not many foreign players on our roster, and it immediately makes us more competitive and visible in that space, and fully reflects the fast growing amount of international talent in our game. It will also enhance our brand up and down our organization and gives us a better opportunity to overcome some market advantages teams like the [New York] Mets have."* Will a draft in the Dominican Republic result in a decrease in these investments? From a 2002 Alan Schwarz piece in ESPN, *"Warming to Idea of Global Draft", "Some executives worry that should MLB fold such players into the draft, teams wouldn't invest the millions of dollars they currently do on academies because there's no sense in developing a player to get drafted by another club."*

Regardless of the real or proposed changes, no draft, inclusion of Latin America in the draft, earlier signing deadline, compensatory picks, trading of picks, mandatory slotting....the cost of developing players is a primary concern amongst all clubs. Across MLB, player development

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costs are in excess of \$600 million per year. In March, Andrew Zimbalist wrote in *SportsBusiness Journal* ;

In 2007, the average MLB team spent more than \$20 million on its player development system. Of this, over \$11.5 million went to pay the salaries of the minor league players.

Generally, each MLB team has six minor league affiliates. Teams also run fall and winter development camps and leagues. Together, an average of 6.2 percent of MLB revenue went toward these minor league salaries.

Also important to business of MLB player development is the impact that the signing of Japanese amateur Junichi Tazawa to a major league contract this off-season will have on future negotiations with Japanese baseball. From a recent MLB.com piece;

As far as MLB is concerned, there are no restrictions on signing Asian amateurs; those players are not included in the annual First-Year Player Draft. Instead, they are handled as free agents, just like youngsters from Latin American countries outside the U.S. commonwealth of Puerto Rico.

But Japanese baseball officials have long worried about losing amateurs to MLB and the ripple effect that might have on professional baseball in their country. Thus far, Kazuhito Tadano and Mac Suzuki are the only Japanese players to have played in the big leagues without playing Japanese pro baseball first.

To that end, Japanese officials have instituted a strict return policy on youngsters who opt to sign with MLB teams first: a three-year waiting period after they leave the U.S. for high school players and two years for college or industrial league players before they can join any of the 12 Nippon professional teams.

Should Tazawa perform well in '09 other Japanese amateurs could follow his example which

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would no doubt strain relations between MLB and Japanese baseball.

The Rule IV draft and escalating player development costs are an issue that all owners and Commissioner Selig will continue to monitor closely.

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