

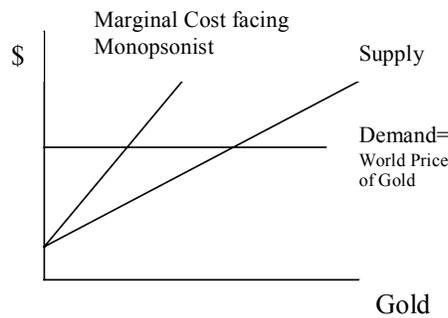
Monopsony & Competition

Monopsony = One Buyer

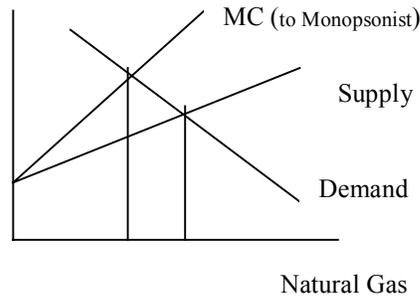
- Examples:
 - Natural Resources:
 - Natural gas served by one pipeline
 - Fishing boats (or cat fish farms) served by one processor
 - Labor:
 - Mill towns
 - Sports

Theory:

- No cost, gate keeper: Gold Export Monopsony
 - Not a monopoly because the world price of gold is set by world-wide market forces.
 - Monopsony buyer from miners in one country.
 - Demand by monopsonist is flat at world price.
 - Supply is positively sloped.
- Monopsonists sees a MC of gold that is higher than the supply.



- Costly production: Transport Costs for NG Pipelines.
 - Same story except that now Demand is downward sloping.



Sports:

- NCAA—price ceiling on paying players.
 - More or less same as NG result.

Rents for colleges

Dissipated on Title IX rules and coaches for women's sports

Incentives to cheat.

- MLB

Reserve Clauseⁱ

Perfect price discrimination

{player quality}

"No man who works for someone else is ever paid too much." —Babe Ruth

= Slavery ?? {Consider slavery as monopsony}

Post Reserve Clause world

Main Points:

1. NCAA restrictions on paying college athletes can be modeled using the standard monopsony model. NCAA restrictions take the form of price ceilings on the amount that schools can pay athletes.

2. These restrictions create monopsony rents that are excess profit to the university.

3. Monopsony rents create “rent seeking” behavior. The outcome of this rent seeking was the allocation of much of the monopsony rent to women’s sports at the university level.

4. Implication is that if there were no NCAA restrictions, there would be no Title IX repercussions on women’s scholarships.

5. Tests of the hypotheses: (a) Athletes are paid less than they are worth as seen by attempts to pay them under the table; (b) Prior to 1984, NCAA directly cartelized the sale of the output, by restricting the number of games that could be shown in TV; (c) expansion of women’s scholarships is only an issue at big time football schools.

Extensions:

6. Professional sports have also seen monopsonization. The “Reserve Clause” in baseball is the stereotype.

7. The reason that athletes are monopsonized is two fold. (a) Their supply curve slopes upward because they are so much different from the average person in terms of physical talent and this talent has no alternative use. [Really smart people are different, but their supply curve to any particular field is flat because all professions are open to them.] (b) The owners of sports teams naturally join together to organize the exhibitions. It is a natural extension to attempt to monopolize the output and monopsonize against the players.

ⁱ **The Reserve Clause** [*from <<http://www.hickoksports.com/history/reservec.shtml>>*]

During the first four or five years of baseball's National League, teams faced constant financial crisis. Now and then a club turned a profit, but most of them lost money.

The biggest expense for any team was player salaries, and competition among teams for players kept driving that expense higher. At a meeting in Buffalo on September 29, 1879, owners decided to reduce competition by allowing each team to reserve five players.

They agreed that no league team would attempt to sign a player reserved by another team. They also made it more difficult for a player to leave the league entirely by prohibiting NL teams from playing exhibition games against any non-league teams who used a reserved player.

The agreement was kept secret at first, but it soon became public knowledge and was written into the league's constitution. Players didn't object to the idea initially. In fact, since a team always reserved its five best players, being placed on the reserve list was at first a badge of honor to be worn proudly.

When the National League and the American Association ended their brief battle by entering into the first National Agreement in 1883, they allowed each team to reserve eleven players. The number grew to twelve in 1886 and fourteen in 1887. With the smaller rosters of the day, that meant that most major league players were reserved by their teams.

The reserve clause was written into the standard player's contract for the first time in 1887. Although it sounds fairly innocuous, it actually binds a player to one team for his entire career--unless the team decides to release him or to trade or sell his contract to another team.

John Montgomery Ward, president of the Brotherhood of Professional Base Ball Players, complained in an 1887 magazine article, "Like a fugitive slave law, the reserve rule denies him a harbor or a livelihood, and carries him back, bound and shackled, to the club from which he attempted to escape."

The Player's League of 1890 grew out of many grievances against major league owners. The reserve clause was perhaps the biggest. And, when owners tried to use the clause to keep players from jumping to the new league, they lost in the courts.

In fact, judges consistently refused to uphold baseball contracts because of the reserve clause. At least twice, it was ruled to be in violation of the Fourteenth Amendment, which prohibits "involuntary servitude"--in one word, slavery.

Yet the clause remained in the standard player's contract until 1975, mainly because owners resisted any far-reaching court decision on the reserve clause, and no player was willing to push far enough to get such a decision.

The Curt Flood case was the beginning of the end for baseball's reserve clause, even though Flood lost the case. A centerfielder with the St. Louis Cardinals for twelve years, Flood was traded to the Philadelphia Phillies in 1969. He refused to report and, backed by the Major League Players' Association, he brought an anti-trust suit against Organized Baseball.

Flood lost the suit, which went all the way to the U. S. Supreme Court, but players ultimately won because the owners made a major tactical error: One of their arguments was that the question of the reserve clause should be a collective bargaining issue, not a matter for the courts.

That set the stage for the famous arbitration case brought by pitchers Andy Messersmith of the Los Angeles Dodgers and Dave McNally of the Montreal Expos. Both of them played the

1975 season without signing contracts and then claimed they were entitled to free agency, since the reserve clause could no longer apply.

The owners argued that baseball's arbitration panel couldn't consider a grievance involving the clause, but panel chairman Peter Seitz replied that it was a legitimate grievance, since the owners had already conceded that it should be dealt with as a collective bargaining issue.

In a decision announced on December 23, 1975, Seitz ruled that McNally and Messersmith were free agents because the reserve clause could not bind them to a team forever. Several court appeals were rejected, forcing the owners into collective bargaining on the issue.

When a new Basic Agreement was signed in July of 1976, it freed players from the reserve clause after six years of major league experience and established a re-entry draft at the end of each season for players who could no longer be reserved by their teams.

The reserve clause is still included in the standard player's contract, but it has lost most of its force because of free agency and arbitration. Those factors have led to an enormous increase in long-term contracts, which make the reserve clause basically meaningless.