

# Numbers crunch salary cap's logic

**W**ITH the news that the Canterbury Bulldogs' fortunes have dived quicker than Enron stocks, anger is understandably mounting at the team's management. But in discussions among football fans, another target is fast emerging – the salary cap itself. The question looms large: has the cap rule served its purpose, or should it be abolished?

First, a little background. For most of its 107-year history, no salary cap has applied in rugby league. In 1988, four years after the AFL put its own cap in place, a league salary cap was introduced. The move towards salary caps occurred not only in Australia, but also in the United States, with the National Basketball Association implementing a cap in 1984 and the National Football League in 1993. A baseball strike is looming as the team owners are discussing schemes similar to a cap.

In league, the salary cap was progressively implemented from 1988-90. By 1995, all teams faced an equal cap, set at \$1.5 million. Over the next seven years, the cap has more than doubled to \$3.25 million, presumably reflecting competitive pressures from both the failed Super League experiment and the increasing crossover appeal of rugby union.

Yet while any cap is in place, a fundamental question remains: why should those who employ football players – unlike all other employers – be allowed to collectively restrict payments to workers?

*Statistics show that the salary cap has failed to level the playing field and is therefore open to a legal challenge, Andrew Leigh and Justin Wolfers write.*

Advocates of a cap state their case simply. The reason for a salary cap is to ensure the financial and on-field viability of all rugby league clubs. As Steve Mascord put it in the *Herald* last Saturday, "if there was no salary cap, Andrew Johns would be playing for a rich Sydney club and the Knights would be broke".

Sports economists have noted that salary caps can have other effects – such as reducing the proportion of revenues spent on player salaries, ensuring a more equitable distribution of pay among players and perhaps even encouraging veteran players to retire early.

Yet surely the argument that appeals most to rugby league fans is that the salary cap makes for a closer competition.

But has the salary cap really made league more competitive? To test the theory, we compared the league results for the 13 seasons since the introduction of the salary cap with those for the same period beforehand.

Superficially, the evidence seems to favour the cap: from 1976-88, only four teams held the premiership shield aloft. By con-

trast, from 1990-2001 (Super League operated in 1997, so that year contained two "seasons"), seven teams have been champions, including relative newcomers such as the Melbourne Storm. However, the fact that the number of teams in the competition rose from 12 teams in the 1970s to a peak of 20 in the mid-1990s explains much of this difference.

Rather than focus simply on the grand final, we turned instead to examining regular season games. If the salary cap worked, we reasoned, then we should expect to see more close games. The answer? In the 13 seasons before the salary cap, 3.3 per cent of all games ended in a draw. Since the implementation of the cap, this has actually fallen slightly, to 3 per cent.

We also looked at the distribution of offensive and defensive talent, comparing how well the top teams performed relative to those at the bottom. Before the salary cap, teams finishing in the top half of the competition scored 56 per cent of the points. After the cap, this concentration of point-scoring actually rose slightly, to 57 per cent.

In terms of defence, the top teams conceded only 42 per cent of all points scored before the cap was introduced, and 41 per cent following the cap. So there seems to be no evidence whatsoever that the salary cap narrowed the skewed distribution of skill across clubs.

An alternative test looks for evidence of less stability in the league



ladder and more “churning”. In other words, there should be a better chance that teams which finished in the bottom half of the ladder one year finished in the top half the next year.

Again, we found no improvement in the post-salary cap era.

In sum, it appears that the effect of the salary cap was precisely nothing. Unless you believe that the tournament would otherwise have become more lopsided during the 1990s, it is difficult to see that the salary cap made league any fairer at all.

In considering whether to keep the cap, we need to consider other factors as well. Some say that abolishing the salary cap could cause

bidding wars to break out, placing a burden on financially strapped clubs. Yet this must be balanced with the fact that by increasing the fraction of league earnings that go back to the players, the game may also find itself better able to attract – and keep – sportsmen who would otherwise have gone elsewhere.

Importantly, whether the salary cap makes league more competitive is not merely a matter for the fans – it may also turn out to be of considerable interest to the courts.

The leading case on the legality of salary caps is the 1991 Federal Court decision of *Adamson v NSWRL*. Because the case centred around a challenge to the system of trading players, the plaintiffs

agreed that they would not challenge the validity of the salary cap.

But the Federal Court did note in passing that a salary cap could only be legal if it could be shown that it was in the interests of the players and the general public. If not, it would be an unfair restraint of trade, and hence illegal.

Now that we have some evidence that rugby league did not become more competitive after the salary cap was introduced, would a court still hold that salary caps are in the public interest?

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