

The 700 million dollar man

The Los Angeles Dodgers signed Shohei Ohtani to a ten-year, \$700 million contract. That's a lot of money. It is 56 percent more than the Kansas City Chiefs paid Patrick Mahomes in his 10-year deal and 64 percent more than the California Angels paid outfielder Mike Trout in his 12-year deal. So what does such a large contract tell us?

It might tell us a lot. It may signal that other baseball superstars may get substantial raises when they sign their next contracts. I have mixed emotions about these large pay days. On the one hand, when sports teams earn revenue, I would

Joe McGarrity



rather the players get it than have the owners keep it. On the other hand, teams will have to raise their ticket prices to pass on some of the costs of these large contracts to their fans. Major League Baseball games are already so expensive that I only go to one every decade. In the future, ticket prices will probably be so high that I won't go to any at all. If other fans also refuse to go to games, these fans will probably develop other interests. Fans have developed new sporting interests before. In the early 1920s, America's

favorite sports were probably horse racing and boxing. In the 1950s-1970s, its favorite sport was baseball. Today it is probably football, followed by basketball – so baseball has already lost its dominant position.

There is a chance that Ohtani's large contract may not be a harbinger of pervasive salary increases in baseball. Instead, he may be earning so much more money than other baseball players because he is way more valuable than them. Some of this extra value may come from the fact that he can pitch and play outfield. But, most of his extra value probably comes from the fact that he is Japanese. If he plays well as a Dodger, his nationality may create a demand for Dodger baseball in Japan that earns the Dodgers so much money that his salary may seem like a bargain.

My other take away from Ohtani's large contract is that the Dodgers are taking a big risk. The team is devoting a lot of money to one player. If he gets injured, the team has to give up significant productivity. \$70 million a year could have bought them three all-stars. If any one of the three got injured, the team could still count on contributions from the other two. Ohtani's large contract may hurt the Dodgers in another way. Research by Professor Craig Depken suggests that while teams win additional games when they spend more money on player salaries, these teams win less often if they pay a lot of money to one player and offset this by trimming their salary expenses on other players.

Ohtani's contract is hard to imagine. It is 70 percent of a billion dollars. If this money were paid out in one-dollar bills, the stack of money would be taller than a five-story building. That is a lot of money. It will be interesting to see what people say about Ohtani's contract in a few years. Was he worth the money? We will see.

Joe McGarrity is a Professor of Economics at UCA. He can be reached at joem@uca.edu.