

Steroids in Baseball

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The New York Yankees want to void Jason Giambi's contract. One could argue that Jason perpetrated fraud. He used steroids to enhance his performance and then signed a contract with the Yankees. The Yankees paid him, expecting that his performance would remain at a high level. However, steroids made Jason's performance slip for two reasons. First, they caused his body to break down, so he was not healthy enough to perform. Second, once players started facing questions about steroids, Jason most likely stopped taking steroids, and he could not perform at his MVP level without them.

Many have called for baseball to require all of its players to undergo mandatory testing. I suspect that the players union will prevent this from ever happening in a meaningful way. Luckily there is a much simpler solution. When players and teams negotiate contracts, they could decide among themselves whether or not to include a drug testing provision in each contract. Consider an example.

Suppose Sammy was a very productive baseball player. A team may be willing to pay him \$12 million dollars a season if they thought his numbers were not artificially inflated due to steroid use. If they thought he was using steroids, they would only be willing to pay him \$6 million a year since they would be afraid that he could not sustain his previous output, and that his body would break down like Jason Giambi's did. Consider first what would happen if Sammy could not be tested for drugs because the collective bargaining agreement between the players union and owners prevented it. If a team thought that there was a 50% chance that Sammy was on steroids,

they would offer him a contract of \$9 million dollars a year. This is half way between his value to the team if he does not use steroids and his value to the team if he does. If Sammy does not use steroids, he should insist that the team test him. Suppose the team does test Sammy, and the team has full confidence in the test results, so that they believe with 100% certainty that he is not using steroids. The team will offer him a contract for \$12 million dollars a year. Sammy stands to gain \$3 million dollars a year by allowing the team to test him.

On the other hand, consider the case when Sammy does use steroids, and testing is prohibited by a collective bargaining agreement – as it is today. Sammy will receive a contract for \$9 million a year as discussed above. He gets the benefit of the doubt and gets paid in part based on the teams expectation that he might not be using steroids. Sammy would not want to change the testing ban, since if he was caught using steroids, he would only be worth \$6 million to a team, and his \$6 million dollar contract is quite a bit less than he would receive if testing were prohibited.

If individual players were allowed to decide whether or not their team could test them for drugs, then players who did not use drugs would want to be tested. Players who used steroids would not permit the team to test them. Players would self-select themselves into two groups: one group that allowed themselves to be tested, and one group that did not. Teams could rightly conclude that those players that were willing to be tested were not on steroids, and those that refused to be tested were using steroids. Teams could use this information to decide how much to pay the players.

Not all players are made better off by my proposal. Players who do not use steroids gain, while those who use steroids lose. Clean players can argue that it comes down to an issue of

fairness. Why should players who play by the rules be penalized to benefit those that cheat. Players unions, like most unions, decide policy by majority vote. If most players are not on steroids, then the majority of players should favor a rule that allows individual players and teams to negotiate the terms of drug testing.

A player will get the benefit from agreeing to drug testing in his next contract. When Jason Giambi signed his contract with the New York Yankees, teams did not consider steroid use because people did not realize it was a problem. Jason Giambi got a contract that was not discounted by the chance that he was using steroids. Today contracts are different because people are fully aware of steroid use and its associated problems. A player like Sammy Sosa who put up huge numbers for the Cubs is an example. If Sammy has not used steroids, as he claims, he would be better off if he had been tested as a Cub, so that teams would suspect that his performance was sustainable, and he would get a big contract. Today, the New York Mets are afraid to sign Sammy to a large contract because they have doubts about his steroid use. If Sammy is clean, steroid testing during his time with the Cubs would increase his salary in his next contract.

Joe McGarrity