

Rookie Draft: allocating new talent, balancing competition and maximising profits?

Definition and modalities

In North America, the rookie draft is a dirigiste allocation of the best talent from the minor, college or foreign leagues. Some professional leagues thus protect themselves from a freely functioning labour market by granting clubs exclusive rights to players entering the league [Leeds, von Allmen, & Matheson, 2018].

The rookie draft has two basic principles: the elimination of all competition between clubs in the same league to take a player from a pool of young players; and the selection of players ranked according to their talent by the clubs in reverse order of their rank in the previous season and/or through a random draw. The rookie draft eliminates the athletes' freedom to choose their clubs and constrains the employers' freedom in the selection of their employees.

This regulatory instrument has been implemented in five North American leagues: in American football (National Football League, NFL) since 1936 [Keefer, 2021; Blemmings, 2019]; basketball (National Basketball Association, NBA) since 1949 [Evans, Pitts and Clark, 2021]; ice hockey (National Hockey League, NHL) since 1963; baseball (Major League Baseball, MLB) since 1965 [Pifer, McLeod, Travis and Castleberry, 2020]; and football (Major League Soccer, MLS) since 2000. The complex rules of the rookie draft fall under the Collective Bargaining Agreement, which is regularly negotiated between the league, the franchise owners and the players' union. Schematically, in some leagues, the team ranked last in the previous season can draft the best new talent ranked first on the league's roster in the off-season, and so on in reverse order of ranking (NFL, MLB).

In other leagues, the rookie draft may involve a degree of risk for low-ranked franchises that do not qualify for the playoffs. A lottery aims to prevent clubs from acting as free riders by voluntarily losing at the end of the championship (without risk of relegation in a closed league), to ensure the best picks for the following season (NBA, NHL). The MLS has a special regulation that aims to keep good players in the league and protect the clubs from the competition of European clubs for recruitment.

The number of players and the number of rounds of the rookie draft varies depending on the league: 60 players in the NBA with two rounds of the rookie draft, 215 players in the NFL with seven rounds, 256 players in the NHL with seven rounds, 1,215 players in the MLB with 40 rounds. Any refusal from a player prohibits him from any activity within the league for at least one year. However, considered

too rigid, this system has been relaxed with the possibility of negotiation between the clubs who can now trade their rookie draft round for another one or, with a player under contract with another team.

Objectives

The rookie draft lever is at the heart of the concerns of North American leagues - whose objective is to maximise profits. To achieve this, the preservation or restoration of competitive balance is the prerequisite for maintaining the quality and attractiveness of the sporting competition. Indeed, the absence of an open pyramid system of promotion-relegation, which is the basis of the organisation of sport in Europe, obliges North American leagues to renew the sporting talent within each team and to balance the forces present to maintain the uncertainty of the result and the interest of the public.

This allocation of talent is supposed to regulate competition between the franchises by eliminating all freedom of negotiation, permanently rebalance the competition in sporting terms by avoiding a concentration of the best players in a few teams, limit inflation in player salaries and guarantee minimum salaries for beginners.

Without the rookie draft, franchise owners of smaller clubs would not have access to new players from the league for purely financial reasons. However, it appears that the competitive balance did not change significantly after the introduction of the rookie draft in the NFL and MLB [Fort, 2003, 2011]. However, the rookie draft gives the league and the franchises a monopsonistic power for the recruitment of rookies that allows a transfer to the owners of the value created by these new players. The former monopolise the monopsony rent without having to share it with the players who are penalised by this supervised mobility - their salaries being lower with the rookie draft than if they had evolved in a market with free recruitment.

The rookie draft tested by behavioural economics

The psychology of decision-making in the high-stakes context of NFL rookie selection helps identify several behavioural biases [Thaler, 2018; Massey and Thaler, 2013]. Indeed, the right frequently used by teams to trade either their priority picks for other differently ranked picks, or for picks in future years, allows for an analysis of the time preferences of franchise executives.

Irrational behaviour tends to overvalue the right to pick early in the rookie draft, with early picks costing too much. Overconfidence results in recruiters overestimating their ability to rank talent between two players, their ability being less than they think. Furthermore, this overconfidence in their judgment leads recruiters to make predic-

tions about the possible future quality of players that are too extreme. These players will be good, just not as good as the recruiters think.

From then on, when it comes to selecting coveted players ranked at the top of the rookie draft, the 'winner's curse' can operate. According to auction theory, when several people are competing for the same item, the winner is often the one who overvalues the item being sold. This is also true for the NFL, especially since recruiters tend to be certain that their competitors share their preferences. Hence the overpricing mechanism that makes the winner's curse inescapable with a price paid that is too high concerning the player's real value. Another behavioural anomaly is the present bias, where owners all want to win immediately, while there are inevitable uncertainties about the future quality of new players.

The market for rookie draft picks does not satisfy the efficient market hypothesis. If the market were efficient, the relative value of rookie draft picks, as established by the NFL's 'Charter', would be a predictor of the value added to the team by those picks. For example, the first pick would have the highest value, the second pick the second highest, and so on. But this is far from the case, with each of the second-round picks bringing more value to the team than the coveted first-round picks. Moreover, when a team has paid a lot of money for a well-placed rookie draft pick, the pressure is so great that it feels compelled to draft that player even if he is not good. The market forces do not drive the price of the rookie draft towards the real added value of these picks to the team.

On the other hand, trading a pick in the upcoming season's rookie draft for a pick in the following season's rookie draft shows that teams should prefer to forego a pick one year to be better positioned the following season. Rational behaviour would have teams loan out a second pick to get the first pick the following season, then trade that first pick for multiple better picks in the second round two years later. However, owners do not seek to optimise their strategies during the rookie draft. Instead, they go for what they think are the best picks for the season in terms of short-term athletic and financial success. However, the probability that a player selected is better than the one who will be selected right after is, over the entire NFL rookie draft, only 52%, which is not much better than a banal coin toss [Thaler, 2018].

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