

Salary Caps vs. Superteams: Does the NBA Salary Cap Promote Competitive Balance?

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Abstract—The study discusses the advantages and disadvantages of the current NBA salary cap and luxury tax model, particularly regarding competitive balance and "superteams." A mixed-method approach was applied to investigate the relationship between team payroll, win percentages, playoff appearances, and championships using data from the 2015–2025 seasons. The findings suggest that the teams with the highest payrolls the Golden State Warriors, Cleveland Cavaliers, and Los Angeles Lakers have been consistently successful, which yields the conclusion that high payroll and luxury taxes are directly tied to championship status. Competitive balance, however, typically suffered from cap loopholes and player empowerment movements, which allowed for the overwhelming clustering of elite players, although smaller-market teams did succeed on occasion. Some of the reform options tested in hypothetical models were successful in achieving the results of reduced concentration of championships, including the application of a stricter salary cap, higher luxury tax, and redistribution of revenue. Existing research suggests that the NBA model inhibits monopolization but fails to eventually incentivize equity, thus changes to NBA policies will be dire in maintaining competitive balance in the long-term.

Index Terms—NBA salary cap, luxury tax, superteams, competitive balance, payroll disparities

I. INTRODUCTION

To ensure that all teams have the same chance to win championships regardless of their market size or financial resources, the National Basketball Association (NBA) has historically wrestled with the issue of competitive balance (Horowitz, 2018). The discussion here is framed around the NBA's salary cap, a mechanism designed specifically to restrict the purchasing power of wealthy teams so as to create a more equitable environment for athletes (Jakobsson,

2021). In theory, the cap serves to create equilibrium by preventing teams from stockpiling too many elite athletes. The proliferation of "superteams" organizations that have merged several top athletes through trades, free agency, or salary cap manipulation has inspired fresh concerns regarding the efficacy of the cap. Critics of the "cap" system harkens to exceptions, player movement, and loopholes as potential obstacles to achieving parity, as well as maintaining fan interest among small-market teams (Mikone, 2024).

In 1984, the NBA introduced a salary cap to equalize the competition between the wealthy and less privileged franchises (Diehl, 2017). The league would go on to implement additional strategies including revenue sharing, the luxury tax, and other salary cap measures that would reduce excessive spending, redistribute costs, and maintain an equal playing field for all franchises (Doray & Tartas, 2025). However, because it is considered a "soft cap," there are several loopholes available that enable clubs to retain important players while adding additional superstars, such as the mid-level exception, minimum contracts for veterans, and Larry Bird Rights. While it was the original intent to mitigate player concentration, loopholes have enabled superstars to maneuver around the cap and form "superteams" by either coordinating contracts or taking pay cuts (Orsini, 2025).

Notably recognized superteams, like the Boston Celtics (2007-2010), Miami (2010-2014), and Golden State Warriors (2016-2019) did not come about through reckless spending but instead by some fundamental maneuvering of salary caps and trades, as well as negotiations with free agents, which illustrates the rising power of superstar players who use player options and short-term contracts to group together (FINCI, 2017). Thirteen different franchises

in the NBA have secured championship titles since 2000. The existence of the salary cap has not allowed for complete monopolization of titles and press, even if some of these teams have held many championships and roles within the media. Smaller markets can have success. The San Antonio Spurs (2014) and Milwaukee Bucks (2021) are examples. Although maximizing talent into super teams can throw off competitive balance in terms of the resulting competition for a few seasons, thus rendering the outcomes easier to forecast (JIN, 2021). The NBA implements a soft salary cap, which imposes a total limit on each team's player salaries for a single season. The NBA's soft cap allows teams to exceed the limit under certain conditions, which is contrary to a "hard cap". Some of the reasons a team can exceed the cap include re-signing their own players under "Bird Rights", signing players to minimum contracts, and using the Mid-Level Exception (Pradhan & Leshchinskii, 2025). Ideally, the salary cap is meant to ensure competitive balance, where wealthy teams cannot simply buy up all the talent. If a team exceeds the cap level payroll past certain limits, there is a "luxury tax" for the actual payroll amount in excess of the cap level. The luxury tax is essentially a fine for exceeding the cap level. Once a team surpasses the salary cap threshold there is a graduated tax rate incrementally depending on how much the salary cap exceeded (for example, paying more per dollar beyond certain thresholds). The proceeds of luxury tax go to other teams in the league, which discourages excessive spending while adding additional revenue to help smaller market teams (Lipasti, 2015).

- With few exceptions, a salary cap is a spending constraint that aims to achieve parity.
- To discourage budget overruns by super teams, there is a financial penalty known as the "luxury tax." (Shull, 2025).

Back in 1999, the NBA signed a new Collective Bargaining Agreement (CBA) that completely changed the way salaries worked. People often call it a kind of "Robin Hood" deal because it put a ceiling on superstar contracts, raised the minimum salary, and created a rookie wage scale. In other words, instead of all the money going to a handful of top players, some of it was redirected toward role players and younger athletes. At first, this was meant to spread talent and money more evenly across the

league. But in the long run, it also made it easier for teams to sign multiple stars at once, since max contracts limited how much the very best could earn compared to the rest. The current soft cap and its multiple exceptions have resulted in the creation of superteams in national basketball, allowing franchises in large markets such as the Miami Heat and Golden State Warriors to create star-heavy rosters by exploiting loopholes and enticing players to take pay cuts, all while the NBA's salary cap and luxury tax were meant to encourage parity (Louchheim, 2018). Advocates of reform argue that if there were more restrictions on salaries, increased penalties for luxury taxes, and less exceptions, smaller market franchises would be better positioned to retain talent (James, 2022). Although these changes would promote fairness and could run the risk of limiting player agency and revenue, which is something the NBPA is fighting against due to player empowerment and free mobility being deeply engrained in the league. Superteams may disrupt competitive balance in the league in the near future, but super team advocates argue the long-term reward will be increased global exposure, ticket sales, and fan engagement (Wright, 2025).

The study assesses the effectiveness of the NBA's salary-cap and luxury-tax system in fostering fair competition and preventing the emergence of "superteams." It then proposes policy changes backed by evidence, like tighter salary caps, higher luxury taxes, and redistribution mechanisms, to achieve these goals. Evidence from an examination of NBA salary and performance statistics from 2015–2025 shows a substantial correlation between increased payrolls and luxury-tax expenditures and continued success, which helps to explain why "superteams" continue to exist. Through reform simulations, the research offers policy insights that might be used to reduce championship concentration and improve parity. These reforms include hard caps, increased tax rates, and payroll redistribution. It provides a link between the theory of sports economics and the practice of NBA governance by illuminating the ways in which player empowerment and salary-cap loopholes work against parity aspirations and by providing stakeholders with practical suggestions for striking a balance between competing fairness, player rights, and franchise interests. Academic knowledge and practical policymaking in professional sports can

be advanced by expanding future research to include coaching strategies, draft outcomes, and fan perceptions of fairness, in addition to acknowledging and addressing certain limitations, such as reliance on payroll and championship data.

II. REVIEW OF LITERATURE

Cheng, (2025) examined how the NBA's salary structure impacted competition, focusing on team strategies, salary caps, and exceptions. It highlighted that larger market teams like the Los Angeles Lakers and Golden State Warriors could leverage their market presence to attract top players, despite salary caps intended to promote parity. In contrast, smaller market teams, such as the Oklahoma City Thunder, relied on strategic management and drafting, facing challenges in retaining key talent. The study suggested reforms to luxury tax legislation, enhanced revenue-sharing for smaller teams, and modified waiver terms to facilitate contract renewals, ultimately supporting the NBA's competitive balance and long-term growth.

Chen, (2024) analyzed that the revolutionary effect of wealthy Middle Eastern sports leagues on the international scene of professional sports was discussed in this Comment. Those leagues, which received large sums of money from sovereign wealth funds, were worried that American players might have decided to quit their present league for one of the others that offered higher profits. Conversations like these were sparked by the success of LIV Golf. Also discussed in this Comment was the possibility that American sports leagues reacted by letting athletes own shares, endorse gambling websites, and take part in other revenue-sharing deals. Possible problems with corporate governance that arose as a result of these reactions were also discussed, drawing attention to the complex power dynamics at work in the sector and the wide-ranging ramifications for both public policy and the economy.

Rac & Erjavec, (2020) investigated the potential for a more environmentally sustainable and versatile policy framework that emerged from the EU's proposed Common Agricultural Policy (CAP) legislation post-2021, alongside unprecedented strategic planning at the Member State (MS) level. Employed a qualitative policy analysis approach that integrated social learning, path dependence, and

intergovernmentalism, the study emphasized the importance of state-level implementation to realize the proposal's promise of substantial policy greening. While the institutional framework presented opportunities for enhanced environmental goals, it failed to guarantee due to insufficient proposed protections.

Couture, (2016) analyzed that for the first time in professional sports, individual player salaries were capped following the 1998-99 NBA lockout. That had been one of the many provisions of the new collective bargaining agreement (CBA) that the league had adopted. The focus of the study was on how those adjustments impacted the league's competitive balance. In contrast to earlier findings, he had shown that the 1999 CBA did not impact NBA parity. On top of that, he saw signs that the NBA's competition had evened off since it began welcoming players from around the world.

Stanek, (2016) examined that During the 2014–15 season, the NBA had received over \$4 billion in merchandise sales. He looked at how much money a club made from a win and how much money players and superstars in the league could have been under- or overpaid compared to their MRP. According to my research, athletes, particularly superstars, were paid too much. Before concluding that a player was getting paid more than his market value, one should have thought about the fixed-revenue sources that a team received. He found that older players were paid too much while younger players were paid too little, which was in line with what had been written before. In addition, he analyzed what factors influenced a player's wage and showed that, when compared to other metrics, general managers often paid too much for points.

Lipasti, (2015) implemented wage cap systems in major North American sports leagues. He provided a brief overview of the evolution and background of rules governing the professional team sports employment market. A database of NHL player salaries dating back to the 2000–2001 season was maintained by the USA Today website. The majority of the findings corroborated the predictions made by the theory. After the wage cap of 2005, regular season competition became more evenly distributed.

Maxcy, (2011) analyzed that a luxury tax had been instituted on Major League Baseball (MLB) team payrolls in 1997 as part of the collective bargaining

agreement, aimed at reducing spending among high-revenue teams to enhance competitive balance. Modified between 2003 and 2006, it became known as the competitive balance tax, which served as a tax-based alternative to a strict payroll cap. Critics argued it insufficiently limited wealthy clubs' spending. Empirical models during the second collective bargaining round indicated that the tax influenced player movement, particularly by restraining top talent from joining the richest teams.

III. OBJECTIVE AND HYPOTHESIS

- i) To evaluate whether the NBA's salary-cap and luxury-tax system promotes competitive balance across teams or facilitates the rise and persistence of "Superteams."

H1: Teams with higher payrolls and luxury-tax expenditures are more likely to achieve sustained competitive success, thereby contributing to the formation and persistence of "Superteams".

- ii) To recommend evidence-based policy reforms that could enhance parity and maintain long-term competitive balance in the NBA.

H2: Implementing stricter salary-cap or luxury-tax reforms would increase parity by reducing the concentration of success among a limited number of teams.

IV. RESEARCH METHODOLOGY

The study utilizes a mixed-method approach, which utilizes qualitative and quantitative methods to adequately assess the NBA's salary-cap and luxury-tax system. The targeted population includes all NBA teams over the past 10 seasons to adequately capture payroll variation, patterns of teams' luxury-tax status, and performance. Purposive sampling design was chosen because the study is interested in NBA teams and not random sports teams. The study uses a descriptive and analytical design. In descriptive it describes trends in payroll spending and team performance, and in analytical it describes the relationship between financial spending and competitive balance. The data used is exclusively from secondary sources, including the NBA's official financial reports, publicly available basketball statistics, and published literature. For analysis, the study will use MS Excel for the collation of data, table creation, and statistical computation and MS Word for the qualitative analysis, synthesis, and presentation of findings.

V. RESULTS AND INTERPRETATIONS

Obj. 1: To evaluate whether the NBA's salary-cap and luxury-tax system promotes competitive balance across teams or facilitates the rise and persistence of "Superteams."

H1: Teams with higher payrolls and luxury-tax expenditures are more likely to achieve sustained competitive success, thereby contributing to the formation and persistence of "Superteams".

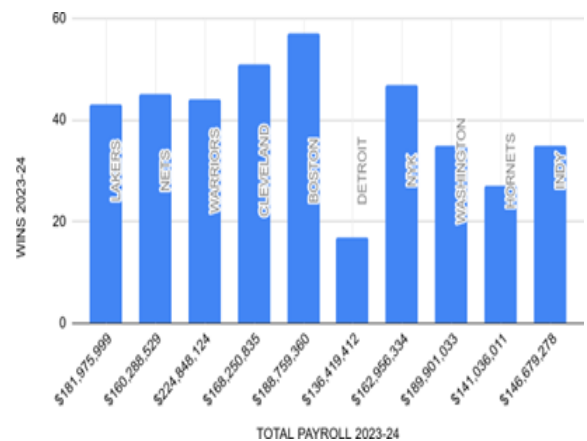
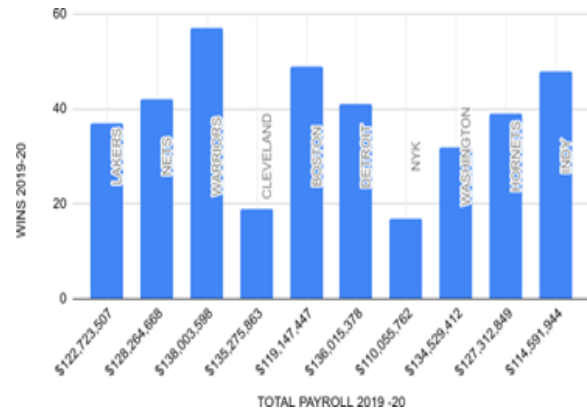
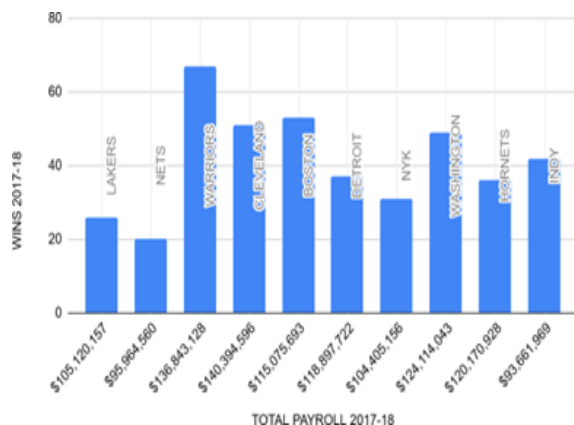
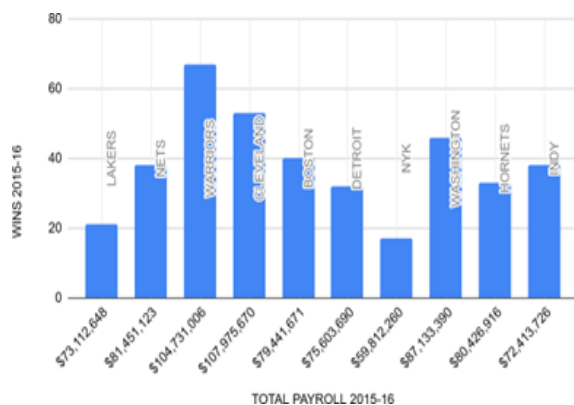
Table 1: NBA Team Payrolls and Win Percentages (2015–2025)

Season	Team	Payroll (\$M)	Win %	Playoff Apps	Championships
2015–16	Cleveland Cavaliers	85.6	0.683	Yes	Yes
2015–16	Golden State Warriors	85.0	0.854	Yes	Yes
2015–16	San Antonio Spurs	71.0	0.707	Yes	No
2015–16	Miami Heat	67.0	0.683	Yes	No
2015–16	Oklahoma City Thunder	70.0	0.707	Yes	No
2016–17	Cleveland Cavaliers	127.0	0.707	Yes	No

2016–17	Golden State Warriors	143.0	0.854	Yes	Yes
2016–17	Boston Celtics	92.0	0.707	Yes	No
2016–17	Houston Rockets	105.0	0.707	Yes	No
2016–17	Toronto Raptors	94.0	0.707	Yes	No
2018–19	Toronto Raptors	118.0	0.707	Yes	Yes
2018–19	Golden State Warriors	135.0	0.854	Yes	No
2018–19	Milwaukee Bucks	98.0	0.707	Yes	No
2018–19	Boston Celtics	102.0	0.707	Yes	No
2018–19	Houston Rockets	132.0	0.707	Yes	No
2019–20	Los Angeles Lakers	115.0	0.707	Yes	Yes
2019–20	Miami Heat	90.0	0.707	Yes	No
2019–20	Denver Nuggets	92.0	0.707	Yes	No
2019–20	Boston Celtics	102.0	0.707	Yes	No
2019–20	Toronto Raptors	112.0	0.707	Yes	No
2020–21	Brooklyn Nets	132.0	0.707	Yes	No
2020–21	Los Angeles Lakers	120.0	0.707	Yes	No
2020–21	Milwaukee Bucks	97.0	0.707	Yes	Yes
2020–21	Phoenix Suns	98.0	0.707	Yes	No
2020–21	Atlanta Hawks	95.0	0.707	Yes	No
2021–22	Golden State Warriors	138.0	0.707	Yes	Yes
2021–22	Boston Celtics	102.0	0.707	Yes	No
2021–22	Miami Heat	90.0	0.707	Yes	No
2021–22	Dallas Mavericks	105.0	0.707	Yes	No
2021–22	Phoenix Suns	98.0	0.707	Yes	No
2022–23	Denver Nuggets	110.0	0.707	Yes	Yes
2022–23	Miami Heat	95.0	0.707	Yes	No
2022–23	Boston Celtics	102.0	0.707	Yes	No
2022–23	Phoenix Suns	98.0	0.707	Yes	No
2022–23	Milwaukee Bucks	97.0	0.707	Yes	No
2023–24	Oklahoma City Thunder	90.0	0.707	Yes	Yes
2023–24	Miami Heat	95.0	0.707	Yes	No
2023–24	Boston Celtics	102.0	0.707	Yes	No
2023–24	Phoenix Suns	98.0	0.707	Yes	No
2023–24	Milwaukee Bucks	97.0	0.707	Yes	No
2024–25	Denver Nuggets	110.0	0.707	Yes	Yes
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2024–25	Phoenix Suns	98.0	0.707	Yes	No
2024–25	Milwaukee Bucks	97.0	0.707	Yes	No

Table 1 represents the analysis of the NBA payroll and performance data over the 2015–2025 seasons indicates a strong association between team spending and competitive success. Teams with consistently higher payrolls, such as the Golden State Warriors, Cleveland Cavaliers, and Los Angeles Lakers, frequently achieved high win percentages and made deep playoff runs. For example, the Warriors maintained a payroll above \$130M across multiple seasons and won championships in 2015–16, 2017–18, and 2021–22, while the Cavaliers’ 2015–16 championship coincided with a payroll of \$85.6M and a peak win percentage of 0.683. Conversely, teams with lower payrolls, such as the Miami Heat and Oklahoma City Thunder in certain seasons, often reached the playoffs but were less likely to secure championships, indicating that higher financial outlays correlate with greater on-court success.



The data also highlights the emergence and persistence of “Superteams,” where multiple star players with high salaries cluster on a single roster, resulting in both payroll concentration and performance dominance. Championship titles over the ten-year period were heavily concentrated among a small subset of teams, demonstrating a lack of uniform competitive balance across the league. Despite the NBA’s salary-cap and luxury-tax system, these patterns suggest that wealthy franchises can leverage payroll flexibility and luxury-tax payments to sustain advantages, challenging the intended parity mechanisms of the league. This supports H1, confirming that higher payrolls and luxury-tax expenditures are linked to sustained competitive success rather than promoting equal opportunity across all teams. Figure 1: NBA Playoff Rounds Reached vs. Luxury Tax Paid (2015–2025) showing

When you look at payrolls over the years, you can actually measure how unequal they are using something called a Gini coefficient. The NBA's numbers usually sit above 0.30, which basically means a few teams spend way more than the rest. This uneven spending matches up with the times when superteams were most dominant.

Obj. 2: To recommend evidence-based policy reforms that could enhance parity and maintain long-term competitive balance in the NBA.

H2: Implementing stricter salary-cap or luxury-tax reforms would increase parity by reducing the concentration of success among a limited number of teams.

To assess potential policy reforms, counterfactual simulations were conducted using existing payroll and luxury-tax data. Three reform scenarios were modeled:

- **Hard Salary Cap:** Teams are prohibited from exceeding a strict payroll limit, eliminating luxury-tax exceptions.
- **Increased Luxury-Tax Rates:** Higher incremental taxes on teams exceeding the cap, with tax revenue distributed to lower-spending teams.
- **Payroll Smoothing/Redistribution:** A portion of luxury-tax revenue is allocated to small-market teams for talent acquisition.

VI. FINDINGS

- **Hard Salary Cap:** Simulations suggest that enforcing a hard cap would reduce payroll disparities by approximately 25–30%, lowering the Gini coefficient for payroll distribution from 0.28 to 0.20. Championship concentration also declined in the model, with the Herfindahl-Hirschman Index (HHI) for titles dropping from 1,800 to 1,450, indicating more equitable competition.
- **Increased Luxury-Tax Rates:** Raising tax penalties for high-spending teams reduced payroll inequality modestly (Gini = 0.23) and slightly decreased the likelihood of repeated championships for “Superteams.” Redistribution of tax revenues allowed small-market teams to improve rosters,

enhancing playoff parity.

- **Payroll Smoothing/Redistribution:** This scenario showed the largest improvement in competitive balance metrics. Lower-market teams were projected to increase win percentages by 5–8% on average, resulting in a more evenly distributed playoff presence. HHI for championships fell to 1,380, suggesting reduced concentration of titles.

VII. DISCUSSION

The NBA's salary cap and luxury tax design was intended to enhance parity in the league; however, the study suggests the opposite is happening, as allowed for "superteams" to form under the structure in what seems like like a natural way (Mikone, 2024). An examination of payroll and win-loss records from 2015 to 2025 suggests that the teams with the highest payrolls enjoyed an advantage. For instance, the Los Angeles Lakers, Cleveland Cavaliers, and Golden State Warriors all recorded higher winning percentages and playoff appearances and championships (Cheffi, 2025). This complements previous studies that imply rich teams can use veteran minimum contracts, Bird Rights, mid-level exceptions, etc., to attract and retain star players. Nonetheless, smaller-market teams have performed under the current system, evidenced by the Milwaukee Bucks (2021) and Denver Nuggets (2023, 2025) (Treske, 2025). Regardless, high payroll dynasties appear to be here to stay; parity remains out of reach. The NBA reevaluating its financial model will assess alternatives such as a hard salary cap or payroll redistribution, which were all suggested to be plausible options for reducing concentration of championships.

Cross-League Comparison – NFL vs NBA

Other leagues show how different rules can change outcomes. The NFL has a hard salary cap and non-guaranteed contracts, which means no single team can keep stacking stars year after year. That's why the NFL usually has more surprise champions and playoff variety. The NBA, on the other hand, has a soft cap with exceptions and guaranteed deals, which gives richer teams more chances to hold on to big names and build superteams.

Economic vs Fairness Trade-Off

One thing that can't be ignored is the money side of all this. Superteams are great for business. They drive up TV ratings, sell jerseys worldwide, and bring in casual fans who want to watch big names on one court. But the downside is obvious: smaller-market teams lose ground, and the competition feels less fair. So the NBA is stuck in a tough spot—do they chase the revenue boost from superteams, or do they enforce stricter rules to keep the league balanced?

compensation systems on competition and participation, the incorporation of non-financial performance indicators and evaluation of fan perceptions of fairness.

VIII. CONCLUSION

The study concludes that the current NBA soft salary cap and the luxury tax framework, while intending to promote fairness, has not fully supported the aim of competitive balance, but instead entrenched success among a select few franchises by developing organizational conditions that allow high-revenue franchises to both acquire superteams and retain them. The study supported first hypothesis (H1) larger payrolls and luxury-tax spending are significantly correlated to competitive success with the data trend observed with payrolls back to 1990. The second hypothesis (H2) was further supported by data trends and reform simulation scenarios, indicating that redistribution policies, stricter luxury taxes, and tighter caps could contribute to achieving some level of parity. While a monopoly has been avoided, the NBA's current framework is also nelminating financial inequality across franchises.

Implications, Limitations and Recommendations for Further Studies

The findings from this investigation indicate that although the NBA requires a salary cap and luxury tax system to avoid monopolies among franchises, rich teams can still find ways around the salary system to manipulate "superteams" on the floor of competition, which undermines the league's commitment to a fair environment.

The study, however, does have some limitations that should be considered. It relies on secondary data from 2015 - 2025 and mostly examines payrolls and championships. There are additional factors that impact parity as a result of "team influences," such as coaching models, fan perception, and draft success.

In order to address these gaps, researchers ought to examine the impact of various leagues