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INCOME INEQUALITY AND THE NBA

Why not redistribute players' salaries? Or other people's incomes?

BY IKE BRANNON

If income inequality in the United States is growing, how much effort should we put into reversing it? The answer to that question depends on the answers to two further questions: how much would dampening inequality also dampen economic growth, and how important is a more egalitarian society compared to a wealthier one? The Obama administration puts a high importance on reducing inequality and perceives the tradeoff between the two as being slight. Republicans in Congress have a different perspective.

Of course, modeling the macro economy as having a stable, measurable tradeoff between inequality and economic growth grossly oversimplifies how the world really works and ignores the forces that have hastened inequality. A more integrated global economy and technological changes have brought greater rewards to education as well as to rare, unique skills. Merely increasing taxes (again) on those earning over \$400,000 a year is a blunt response to the forces that conspired to create the phenomenon in the first place.

Northwestern University economist Robert Gordon suggests that much of the increase in measured income inequality in recent years has been driven by a separate but related market evolution. This has been manifested by changes in the income structure of entertainers (such as athletes, movie stars, and musicians) and a cadre of elite professionals (such as lawyers, management consultants, and financial executives).

Perhaps the best way to understand the forces that have increased income inequality and think through what our economic response should be is to focus on how those same forces affected one particular market: professional basketball. The National Basketball Association's explosion in popularity has created a few spectacularly rich people, but the typical NBA player is far from wealthy and most of the wealth created by the NBA's rise in global popularity has gone to people who don't

play the game, but instead hold solidly middle-class jobs. Taxing the resulting inequality away is easier said than done.

NBA NADIR AND RENEWAL

The overall popularity of basketball has not changed appreciably in the last three decades—at least not in the United States. What



has changed is the ability of basketball consumers—both here and around the world—to watch the top professional teams play the game in the NBA. In the 1970s, few homes had cable television and those that did received relatively few channels, none of which carried much pro basketball. For a while the NBA was not even regularly carried on the broadcast networks. In the mid-1970s, devoted Chicago Bulls fans (like I am) living in central Illinois could not watch them on TV, listen to them on the radio, or even count on their box score appearing in the local newspaper, *not even for playoff games*. The 1980 NBA championship—which featured Magic Johnson’s Los Angeles Lakers against Larry Bird’s Boston Celtics—was shown on tape delay after the *Tonight Show*.

I kept track of my team (which contended for the NBA title in the 1970s) by reading day-old *Chicago Tribunes* at the local library and catching snippets of their late-night games on the West Coast on WIND-AM, when the Chicago radio station could be faintly heard on a clear night. Basketball fans had to get their fix by going to the local high school gym on Friday and Saturday nights. In the small town where I grew up, the junior high games regularly sold out—in a gym that held over 1,000 people, more than the number of people who resided in the town.

Today, the ubiquity of cable and satellite television means that watching an NBA game almost any night of the week is as easy as picking up a remote. What’s more, the actual broadcast has greatly

improved over the last 30 years, with just about every basketball fan owning a high-definition television with stereo sound, a great improvement over the analog televisions of the past.

Basketball’s popularity has been rising overseas as well, thanks to satellite TV, which makes it easy for people to get NBA games all over the world. The game (and league’s) growing popularity abroad has in turn improved the caliber of the league by bringing a horde of talented foreign players into the NBA, further increasing its fan base. The ratings both here and abroad have led to multi-billion-dollar TV contracts, and in turn an average player salary in the millions of dollars. Since 1985, the average NBA salary has grown by over 1,500 percent—which is almost completely a result of improving technology and a growing internationalization of our economy and culture.

Not everyone benefited from that development. One result of the NBA’s popularity is that while a record number of people are watching the sport on their televisions, the high school gyms that were overflowing in the 1970s and 1980s are now half-full or closing. There have been few additional jobs created for professional basketball players in the United States in the last decade despite the surge in demand; precisely one new NBA team has come into existence in the last decade and rosters have modestly expanded from 12 to 15. While an additional 100 jobs in the league may be a godsend to marginal NBA talents across the globe, its economic impact is negligible.

STEPHEN BARTHOLOMEW/ACTIONPLUS/CORBIS



JOBS FOR POINT GUARDS, WEB DESIGNERS, AND TICKET-TAKERS

While there may not be many more jobs for professional basketball players, the explosion of the league’s popularity has created myriad other jobs. The NBA alone has over 150 non-player job openings currently posted on its website. The New York Knicks list over 200 employees on its website, not including players. The list of jobs includes sales, finance, marketing, event presentation, community relations, photo services, fan development, and ticket sales and retention, as well as 13 vice presidents. These employment numbers are orders of magnitude above what the team and league office employed in the 1970s.

The NBA’s rise has created many jobs beyond the league and the teams as well, in broadcasting, merchandising, and various other marketing ventures. For instance, there is now a very robust and competitive market for reselling NBA tickets that generates tens of millions of dollars of value added annually.

But creating jobs should never be the *sine qua non* by which we judge an economic transformation. The cultural, political, and technological changes that have given tens of millions of devout basketball fans the ability to watch the NBA on a regular basis should be considered an unalloyed good thing.

Few fans seem to begrudge NBA players for their money. Harvard economist Kenneth Rogoff expressed his amazement over the public’s blasé acceptance of the salaries of sports stars compared to its low regard for superstars in business—perhaps because it is easier

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to grasp the sacrifices an NBA player made to achieve stardom than a successful chief executive officer, where vilification runs rampant. Most people have tried to play sports and can appreciate what it takes to make it to the big leagues, but few people can comprehend the difficulties that lie along the path to the boardroom and can easily conceive how such a system might not always result in the most capable candidate winning the crown, unlike the competition to be the starting point guard on the Miami Heat.

The late economist Sherwin Rosen devised a theory that came

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to be known as the Economics of Superstars, which holds that the high wages in elite professions are the result of intense competition for the jobs, combined with a fixed number of positions. When there were only three broadcast networks in the 1970s, there was only room for at most three late-night TV hosts. The best host, Johnny Carson, got the biggest audience and a lucrative contract that dwarfed the salary for the second-best host, and the fourth-best host had to find another job. There are slightly more positions for NBA point guards than for late-night talk show hosts these days, but not all that many more—and someone who's not one of the top 100 in the world in either category needs to move abroad or find another profession.

TAXING THE TOP

The average NBA player is not rich when his lifetime earnings are considered. The median tenure in the league is roughly six years, but for someone who never becomes a starter (which is the vast majority of all NBA players), the median tenure is scarcely two years. Someone who plays in the league that long likely sandwiches his NBA career between stints overseas and retires before age 30, having earned less than \$5 million. A tax code that hits those guys hard during the short time they're earning NBA money isn't going to be all that great at redistributing income: a brief NBA career is not a ticket to much of anything besides the coaching profession, which—again—only pays well for people at the top.

Such an earnings pattern fits many small business owners as well, where going years—or decades—earning a modest salary and then selling the business for a one-year payout is a common financial endgame.

Would taxing away a bigger chunk of the exorbitant salaries

affect the effort of those in the NBA or those striving to make it to the show? It's doubtful; LeBron James is going to play if his top tax rate is 30 percent or 65 percent—but that may not hold for those who are starting a business or hoping to make it up the corporate ladder. The government already keeps more than half of income over \$400,000 for people in high-tax states.

A more important question is how a higher tax rate on very high income might affect those who aspire to make it big. The tournament that is the NBA labor market consists of millions of boys playing basketball with the hope of making it to the NBA, few of whom ever do. The vast majority of players in junior high, high school, and college fail to advance to the next level. While the aspirants have some notion of the odds they face, the chance—however slight—of making it big and becoming rich is enough of a lure to keep them playing the game even when their chances appear negligible.

Labor market “tournaments” pop up all over the economy. A typical big-box retailer has a handful of senior managers paid six-figure salaries and 20 or 30 times more assistant managers in charge of various departments being paid a relative pittance, with the promise that if they do a good job, they could become a senior manager one day. Accounting and law firms function similarly. Of course, the promise is not quite true: the vast majority of assistant managers and law and accounting firm associates leave their firms before becoming manager or partner. Some argue that these promises are somewhat exploitive, but taking a lower salary while learning how to be a lawyer or the nuts and bolts of a retail organization—as well as having a chance for a brass ring—is a tradeoff many people are willing to make.

If we increase taxes on those at the top, will we see less effort from those who aspire to move up the greasy pole? Maybe not in the NBA, but if we impose quasi-confiscatory taxes on the people who manage Home Depots or accounting firms, we may.

LEARNING THE GAME

The NBA's success demonstrates first and foremost that technological change and the growing interconnectedness of the world economy have increased the income of the most talented far above and beyond anyone else. LeBron James would not be getting anywhere near his \$60 million in salary and endorsement income if the NBA were still a league solely watched by folks in major cities over rabbit-ear antennas.

Second, the global expansion of the NBA brand has created thousands of jobs besides those for basketball players. Some of those jobs are menial and do not pay all that well. Some of those jobs aren't even in the United States—nearly 10 percent of currently advertised NBA job openings are in China. But many NBA jobs are precisely the high-skilled, high-wage jobs that politicians lust after.

Also, as I already noted, the typical NBA player is far from rich. There are many more players who hang onto an NBA roster—playing for the minimum salary of \$480,000 and hoping to stay in the league for a couple years—than there are players making eight-figure salaries. Treating all players as “rich” is going to miss the mark wildly, especially considering that a life dedicated solely to basketball leaves many players unprepared for other careers and with a lifetime income from the game that puts them below affluence.

While it may be theoretically possible to increase the tax rates on LeBron James and Kobe Bryant in a way that would not affect their economic activity, those people are few in number, they have the resources to lower their taxable income to some degree, and they already face tax rates that approach or exceed 50 percent. Raising tax rates on the wealthy few to 60 percent or 70 percent may not push them to play in Europe, but it may chase artists, investors, and others who can do their work anywhere to leave America for more economically hospitable climes while generating a pittance in government revenue.

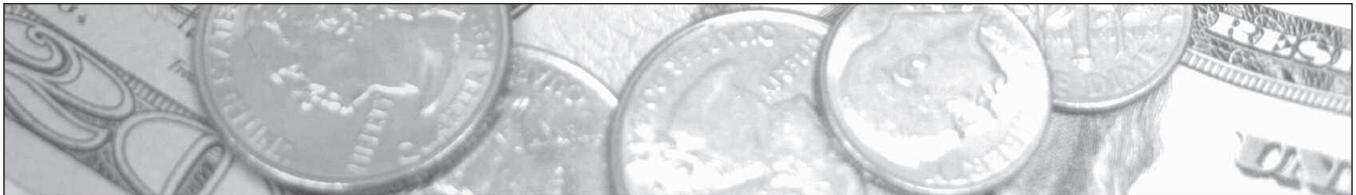
CONSUMERS ARE THE REAL WINNERS

The most important outcome of the NBA’s globalization and attendant increase in popularity isn’t the extreme wealth that a

few people have accumulated or the jobs created, but rather the entertainment value that hundreds of millions of people around the globe receive from being able to watch the NBA regularly. Too often in such discussions the benefits accrued to consumers are ignored. Ignoring who truly benefits from the expansion of an industry leads to a woefully incomplete analysis.

I have lots of complaints about the NBA—they let too much shoving occur underneath the basket, the rules on palming the ball and traveling need to be enforced, the court should be wider and longer, and we ought to discuss raising the rims a few inches. And I miss the packed high school gyms that the NBA’s ascendancy has made largely a thing of the past.

But it is hard to see the technical and societal changes that have made the league a truly international phenomenon as anything other than a boon to sports fans all over the world and a phenomenon that has created tens of thousands of well-paying jobs that don’t involve shooting a jump shot. That the result of this has been the creation of a few dozen millionaires each year is a good problem to have. Taxing a majority of their wealth away would accomplish little in terms of our ponderous long-term budget situation and, if done poorly, could easily punish the non-rich as well (whose careers have been made by the NBA’s ascendancy), as well as threaten the league’s future success. That’s a lesson that holds for the rest of the economy as well. **R**



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