

SPORT, SUPER-RICH INEQUALITY & GLOBALIZATION

Robert Z. Lawrence

Peterson Institute for International Economics, Washington
December 4, 2015

Explaining Inequality: What Can Sports tell us?

- Introduction.
- Three types of inequality.
 - **Wages** (e.g. rising premiums for skill).
 - **Class** (e.g. increasing shares of profits).
 - **Super Rich** (e.g. increasing share of top one percent)
- Three types of explanations.
 - **Globalization.**
 - **Technological Change.**
 - **Institutions and Politics.**
- My Question: What role in “Super-Rich” Inequality does each type of explanation play?

Theory: “Winner Take All”

In certain activities the second best is a poor substitute for the best: number 1 is fixed in supply, so demand leads to the best earning higher premiums.

- **Examples:**

- The building in the center of London.

- The best selling novel or movie, e.g. “Harry Potter”

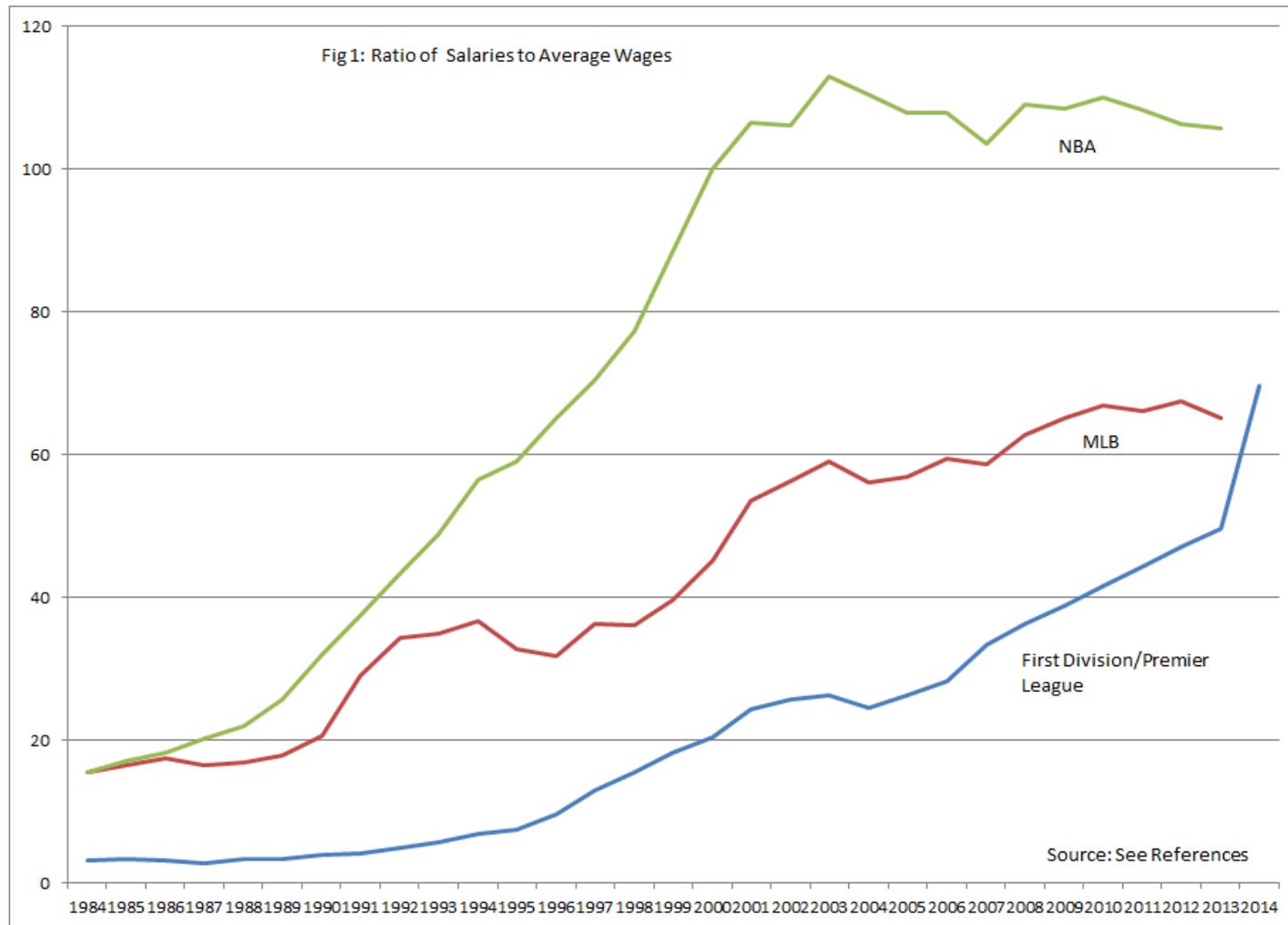
- The best sportsman/teams e.g. LeBron James, Tiger Woods,/ Manchester United, New England Patriots.

- **Globalization & Technological Change in IT: bigger markets and bigger firms, hence higher premiums for the winners. (Also some role for institutions)**

Alfred Marshall understood this:

- A business man of average ability and average good fortune gets now a lower rate of profits on his capital than at any previous time; while yet the operations, **in which a man exceptionally favored by genius and good luck can take part, are so extensive as to enable him to amass a huge fortune with a rapidity hitherto unknown.**
- The causes...are chiefly two; firstly, the general growth of wealth; and secondly, the development of new facilities for communication, by which men, who have once attained a commanding position, are enabled to apply their constructive or speculative genius to undertakings vaster, and extending over a wider area, than ever before.
- **It is the first cause, almost alone, that enables some barristers to command very high fees; for a rich client whose reputation, or fortune, or both, are at stake will scarcely count any price too high to secure the services of the best man he can get:** and it is this again that enables jockeys and painters and musicians of exceptional ability to get very high prices. In all these occupations the highest incomes earned in our own generation are the highest that the world has yet seen (**Marshall 1920, book VI, chapter XII, 41–43**).
- (BUT) .. So long as the number of persons who can be reached by a human voice is strictly limited, it is not very likely that any singer will make an advance on the £10,000, said to have been earned in a season by Mrs. Billington at the beginning of last century (**Marshall 1920, book VI, chapter XII, 43**).

Sports “Super-Stars”.



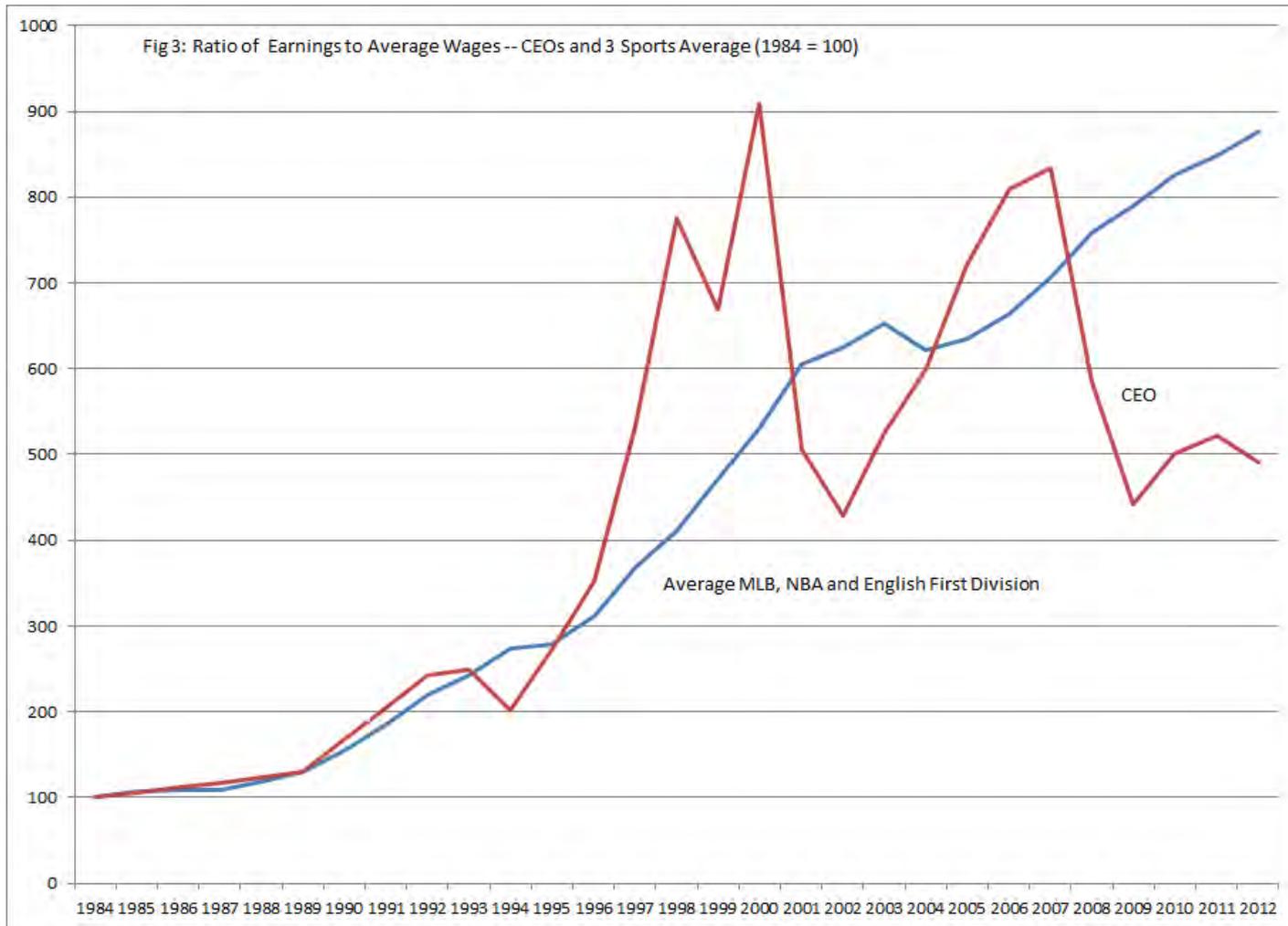
Explanations:

- Globalization? A relatively small part especially for Major League Baseball mainly USA – (despite “World Series”) and also small for NBA (even though some share is now global).
- Technology? The major driver. Cable TV allows for much larger audiences. Growing size of TV contracts.

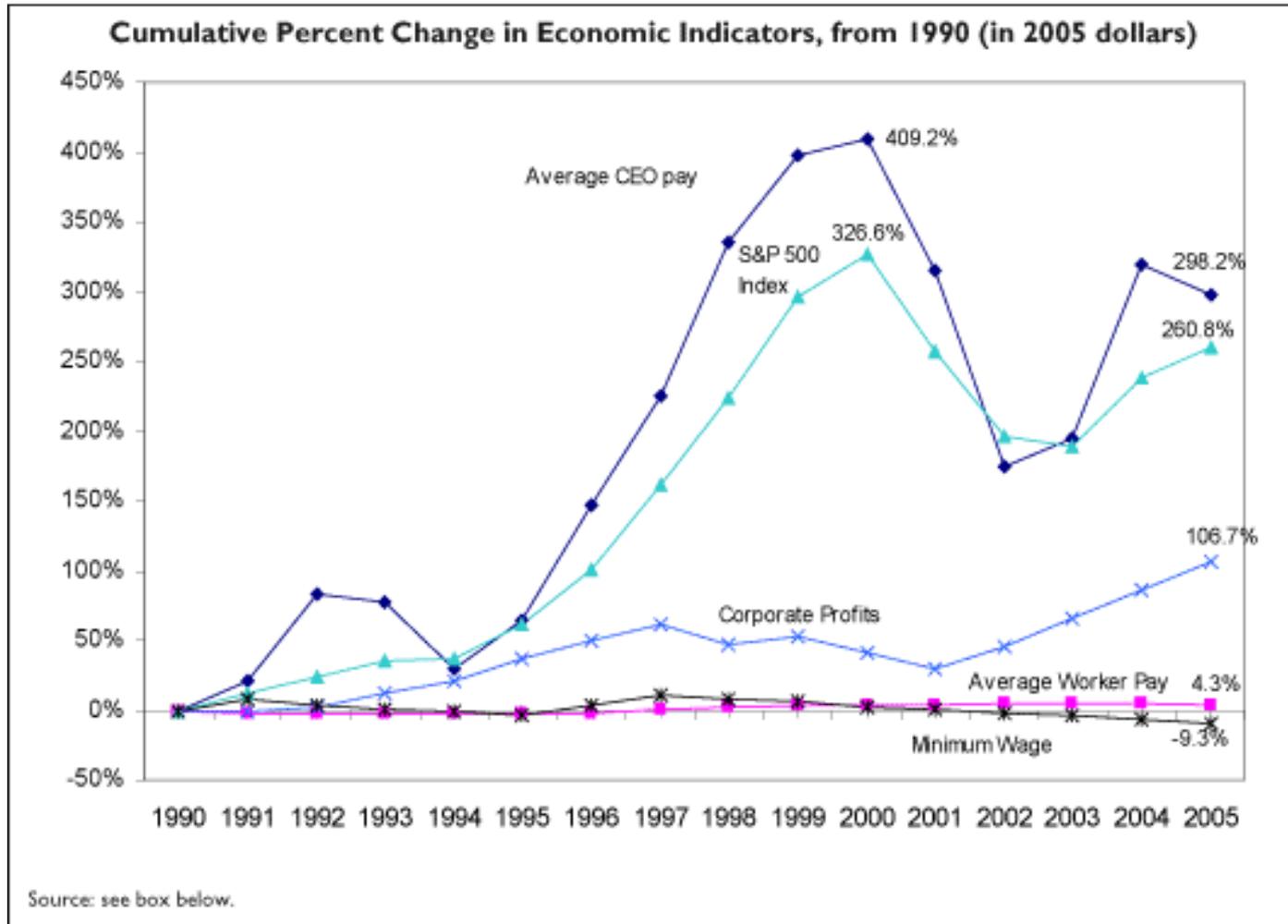
But are sports incomes purely market driven?

- **Cities compete for teams with subsidies:** A league should have $n - 1$ teams if it seeks to induce n cities to build stadiums. Current examples:
 - In NFL: San Diego, Oakland and St. Louis Rams all are threatening to move to Los Angeles.
 - In NBA: Even Scott Walker supports tax breaks for new Milwaukee Bucs facilities.
- Should cities subsidize?
- Should Federal Government give tax breaks?
- **Similarly, countries compete with subsidies to attract foreign direct investment.**

Sports Super-Stars and CEOs: Similar!



CEO pay and the stock market



Explanations for CEOs

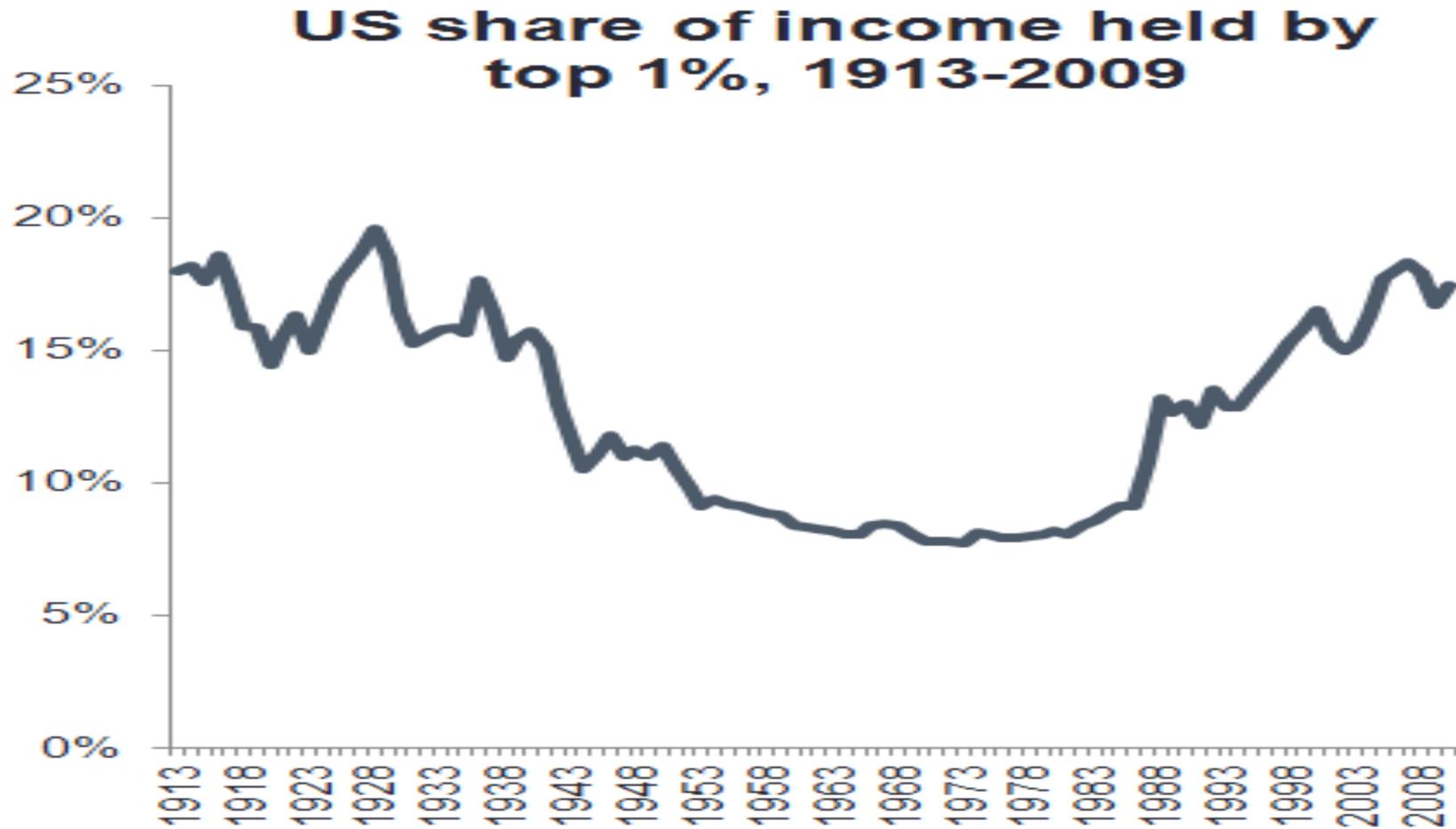
Rational: More Valuable Companies – More valuable CEOs.

- (even when only small differences in quality ex ante, and perhaps no difference ex post).
- Xavier Gabaix and Augustin Landier QJE (2008)

Institutional. Its flawed corporate governance.

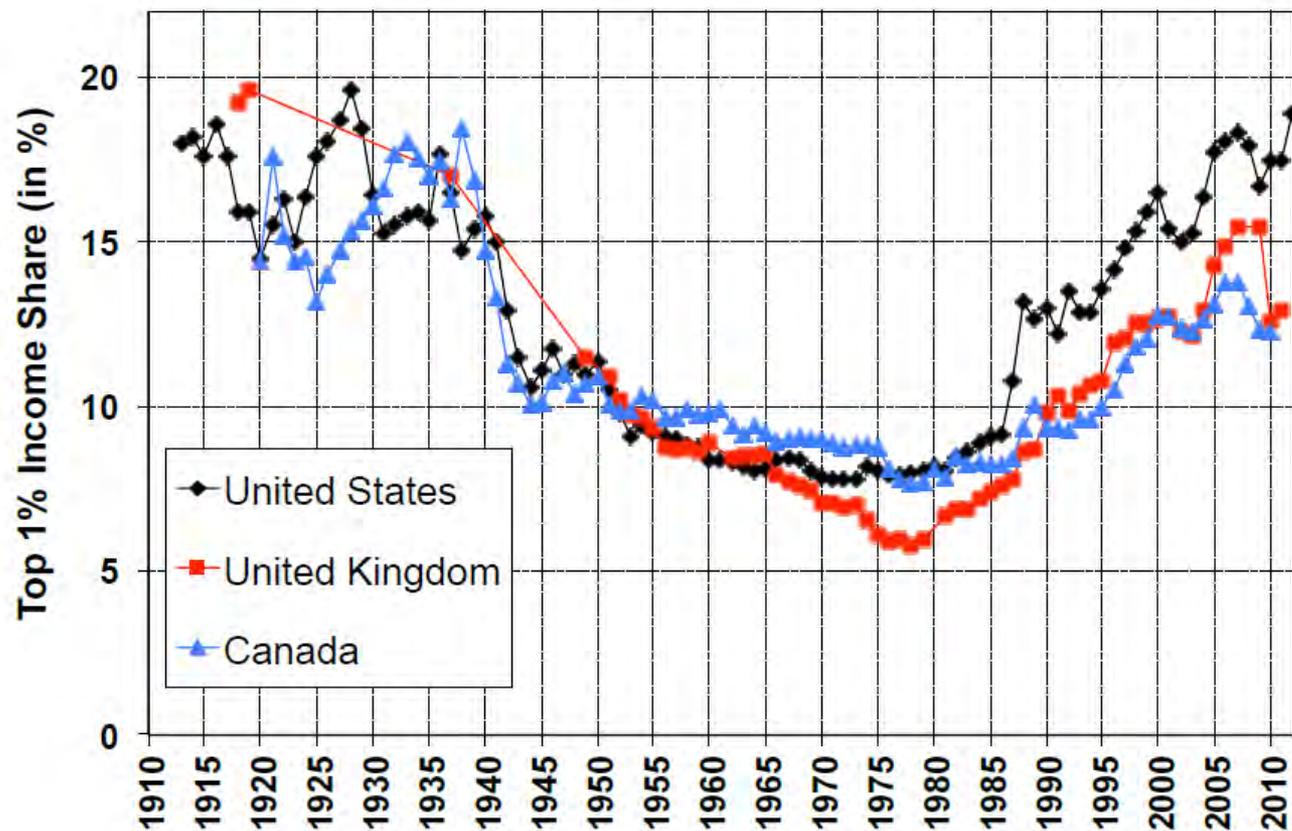
- Lucien Bebchuk (2004) Pay without Performance: The Unfulfilled Promise of Executive Compensation.

Super-Rich Inequality



Politics/institutions could also play a role.

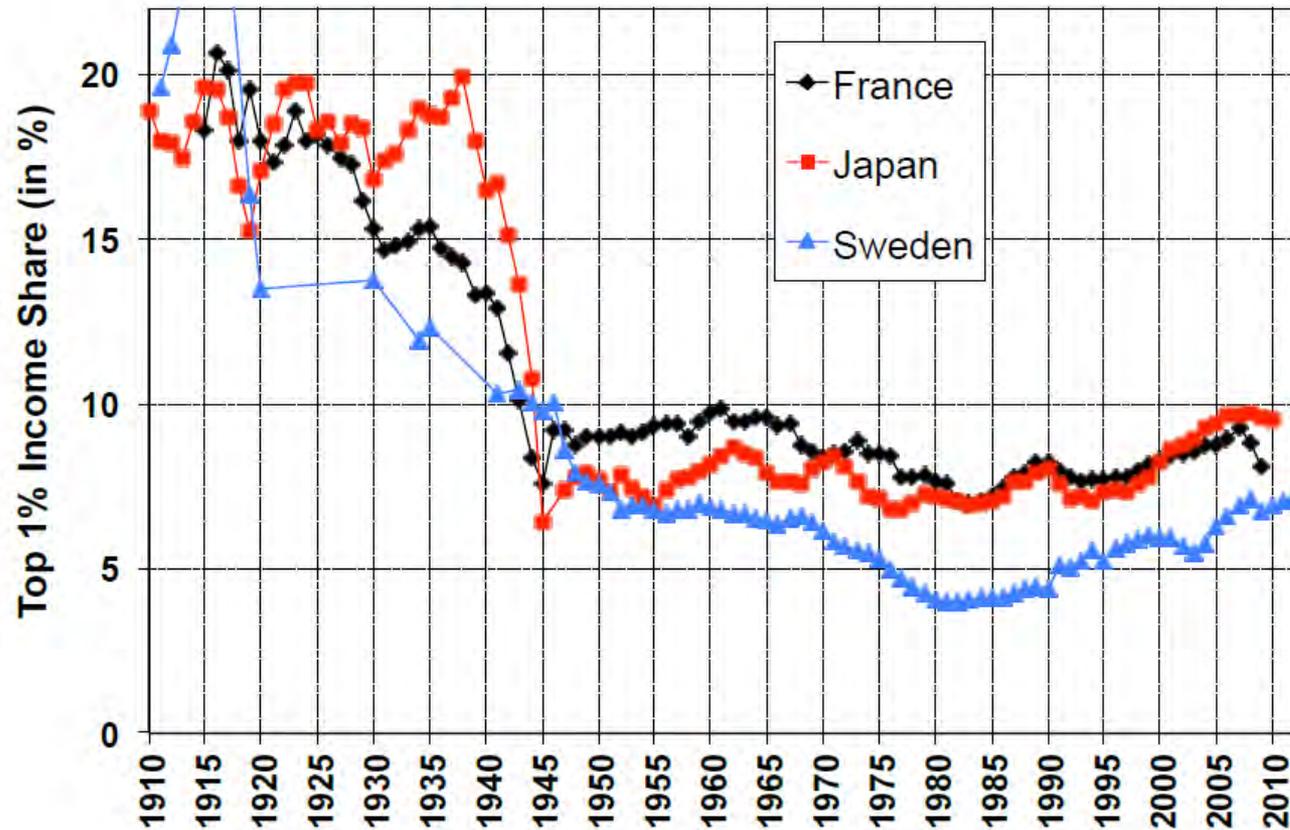
Top 1% share: English Speaking countries (U-shaped)



Source: Saez 2014

Less clear where English is not spoken!

Top 1% share: Continental Europe and Japan (L-shaped)



Source: Saez 2014

Conclusions & Implications

- Technology, especially cable TV, is clearly a powerful driver of higher incomes.
- But larger global markets play a role.
- Larger and more valuable firms could generate similar results for CEOs.
- But institutions/rules may also be important (corporate governance, local government subsidies).
- Implications: Much of the highest incomes earned by number one are rents and could be taxed and rules on competition for firms to locate could also be important.