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Top Athlete Pay

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Top Athlete Pay

Lots of folks get riled up over the level and rapid rise of CEO pay, but what about other relatively highly paid people, like well-known athletes?

In 1930, Babe Ruth was asked why he was demanding to be paid more than even President Herbert Hoover. His answer sounded irreverent: "I had a better year than Hoover." Today, most people think nothing of outstanding athletes earning more than our president — in good years and bad.

Academic Framing of Superstar Pay

In "Economics of Superstars," Sherwin Rosen wrote the classic article on why a few are making so much more than others (*American Economic Review*, 71(5), 1981, 845-858). He framed the issue as one where a very small number of individuals can increasingly dominate, especially in some professions, because new technologies are allowing "the best" to take advantage of larger and larger consumer markets. These ideas were popularized and advanced in Robert Frank and Philip Cook's "The Winner Take All Society" (Free Press, 1995). Imagine talented singers or baseball players before the advent of radio or television or i-products of any kind. Many more people could earn a living as local celebrities, and the revenue from consumers would be spread among them. Increasingly, super superstars have emerged as one person's talents can entertain (and be compensated by) billions, simultaneously.

Let's Look at the Sports Data

The United States has a history of discussing the pay of the relatively well-paid. This is partly because pay levels of some are revealed publicly (e.g., CEOs of publicly traded companies). Americans are also characterized as being celebrity-obsessed. So discussing the pay of superstars seems inevitable. However, we do not have quality data on the compensation of the relatively



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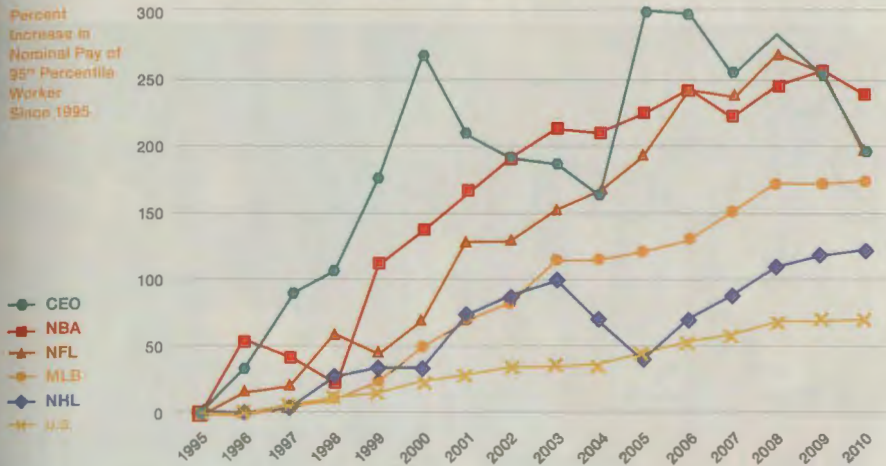
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Figure 1 Growth in Pay for Workers at Border of Top Five Percent



Percent increase in nominal pay for 95th percentile for six groups, relative to their nominal pay level in 1995. (For each group this is the level at which only 1 in 20 earns more.)

Note: The United States represents all full-time workers in the country each year and CEO is the CEOs of roughly the largest 800 publicly traded firms each year. The other four groups are all players in each of the major U.S. sports leagues: National Basketball Association (NBA), National Football League (NFL), Major League Baseball (MLB) and National Hockey League (NHL).

Source: Data collected from various public sources and pooled and charted by the Institute for Compensation Studies, Cornell University's ILR School.

highly paid in many organizations and professions. Through the labor of some talented Cornell undergraduates working with the Institute for Compensation Studies, I've pooled 15 years of compensation data across the American professional leagues of baseball, football, hockey and basketball.

I have plotted (see Figure 1) the percent increase in the (nominal) 95th percentile of pay of all athletes in each of the four major team sports in the United States: Major League Baseball (MLB), the National Basketball Association (NBA), the National Football League (NFL) and the National Hockey League (NHL), relative to their level in 1995. I did the same for CEOs of the top 800 U.S. publicly listed companies and for full-time U.S. workers.

That is, imagine sorting all the folks in each of these sets from the lowest paid to the highest and then find the person who makes more than 19 out of 20 of his/her peers, but makes less than only one in 20. This person is at the border of the top 5 percent of all workers in that group, or is the 95th percentile worker. Then, take their pay and compute the percent increase since 1995. (Note these numbers do not include important aspects of compensation beyond wages and salaries, such as pensions, colleague quality, job security and the like.) As a baseline, the 95th percentile full-time worker in the United States in 2010 earned about \$100,000. From 1995 to 2010, pay for this relatively highly paid U.S. worker grew 69 percent. (Adjusting for inflation, the purchasing power gained would, of course, be smaller.) The 95th percentile CEO, on the other hand, saw pay increase by 240 percent. This is a statistic that often outrages people. But Figure 1 reveals that other very talented people also saw their pay skyrocket. But Figure 1 reveals that other very talented people also saw their pay skyrocket. Athletes at the

95th percentile of pay in the NHL, MLB and NFL saw their pay go up by roughly 125, 175 and 200 percent, respectively. In the NBA, the 95th percentile of pay grew about as steeply as that for CEOs — 240 percent since 1995. As Sherwin Rosen's theoretical model would predict, athletes in the high end of the high end are doing pretty well of late.

Are CEOs Just Like Superstar Athletes?

When I speak about compensation in front of large groups, someone (and in many cases, many people) gets incensed over what they term "outrageous" or "egregious" levels of executive compensation. Athletes are rarely mentioned. For an economist, this is a paradox. Why should the high pay of one group of workers (CEOs) be more inflammatory than the high pay of another (athletes)? Market forces for pay apply to all occupations after all (although some may argue some institutions provide a catalyst for higher pay in some occupations). Perhaps, the anger directed at CEO pay levels is just because rising CEO salaries (in publicly held companies) are better known, or because most people know the limits of their own athletic abilities (a lesson most learned, sometimes painfully, back in elementary or high school), and so appreciate the athletic skills of superstars. Or, perhaps, it's because athletes provide many, many people with direct entertainment they feel willing to pay for; perhaps not so for CEOs. **WF**



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