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Air Jordan and the 1%
By MATTHEW SCHOENFELD

What does Michael Jordan tell us about income inequality in the United States? The U.S. has greater income inequality than nearly all other developed nations, and the former basketball star earned far more in most years than the typical American earns in a lifetime. So is our system unfair and stacked against the middle class? First, some historical perspective.

"From the time of Pericles until the end of the 18th century in London—2,300 years," notes Harvard Prof. Lawrence Summers, "standards of living on Earth increased perhaps 100%." In the U.S. since 1790, by contrast, real per capita gross domestic product has increased nearly 4,000%. Quality of life, in other words, increased 40 times more in 220 years of American history than it had globally over two millennia. In 2012, a typical American in the bottom fifth of the income distribution has a far higher quality of life—and life expectancy—than the average member of the top 1% in 1790.

Critics today often point to the 1950s as the last years before American society became so divided between haves and have-nots. At the end of that decade, America's "Gini coefficient"—the most common measure of income inequality, running from 0 (least unequal) to 1 (most unequal)—was 0.37. Today it is 0.45.

But in 1959, more than 20% of families fell below the poverty line. In 2010 that figure was just over 13%. Real per capita GDP today is 270% higher than it was in 1959. A family in the bottom fifth of the income distribution today makes the same amount in real terms as a family earning the median income in 1950. So inequality might have increased, but so too—dramatically—has quality of life.

Even over the last two decades, while real income has essentially stagnated for the bottom fifth of earners, basic conveniences have become far more affordable. In 1992, only 20% of American families below the poverty line had a dishwasher—50% had air conditioning and 60% owned a microwave. When the Census Bureau last surveyed these figures in 2005, those figures were 37%, 79% and 91%, respectively. Critics who minimize the importance of these conveniences likely have never had to do without them.

And that brings us to Michael Jordan, who starred for the Chicago Bulls from 1984 to 1998. In 1986, the Bulls' median player salary was \$300,000. The team's lowest-paid player made \$135,000, and its highest-paid player made \$806,000. The team's Gini coefficient was 0.36. But Jordan's superstardom increased the team's popularity and revenues, and by 1998 salaries looked different. The median income was \$2.3 million, the lowest was \$500,000, and the highest (Jordan's) was \$33 million. The Gini coefficient had nearly doubled, to 0.67.

Jordan's salary of \$33 million consumed over half the payroll, but everyone was better off. The median player in 1998 made more than seven times what the median player made in 1986, while the income of the lowest-paid player in 1998 quadrupled that of his 1986 peer.

Detractors would suggest that this situation is anomalous to sports, that many of today's wealthy inherited their money or acquired it without adding commensurate value to society. But consider another basketball player, Rashard Lewis of the Washington Wizards.

Lewis was the second-highest paid player in the National Basketball Association in 2012, making \$22.1 million—even though he appeared in fewer than half of his team's games and performed poorly when he did. Is it fair that Lewis was compensated so handsomely? More

pertinently, if his team could repossess a portion of his salary and redistribute it more "fairly" to deserving players following the season, would it benefit the franchise?

Perhaps it would in the short term, as the team could reward players and temporarily strengthen morale. But top players would be disincentivized to play for the team in the future, knowing that such repossession could also happen to them. And without an objective measure of overall player performance, the team could one day decide that even a high-performing player was overcompensated and therefore should see some of his proceeds redistributed to his teammates. The team would quickly become uncompetitive.

Certainly there are reasons for concern if lower-income Americans aren't able to save or acquire sufficient capital to pursue innovative ideas, or to see their children attend decent schools. They will suffer, and the country will lose out on significant intellectual capital and growth opportunities. But this should not be confused with inequality.

Equality is not a good in itself and shouldn't be analyzed in a vacuum. If we remember that, perhaps a century from now low-income Americans will pity the living standards of today's 1%.

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