Athletes' Salaries Too High? Sports Fans, Blame Yourselves

BY GENE CALLAHAN

I was sitting in a sports bar recently when the bartender and three of the patrons near me began discussing the salary of New York Yankee third-baseman Alex Rodriguez. (Rodriguez currently makes roughly $25 million per season.) One of the customers said it was absurd that Rodriguez makes so much when, for instance, teachers, charged with educating our children make only $50,000 or $60,000 per year. The bartender defended Rodriguez's salary, asking, "If someone offered you $25 million, would you turn them down? And besides, if the owners can pay ballplayers that much, how much are *they* making?" (His second defense of Rodriguez's income level is, of course, open to the objection that the owners are even *more* overpaid than are players.)

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I am presenting an account of their conversation here not because I suspect that the readers of *The Freeman* are especially interested in Rodriguez, but because it struck me as representative of a type of complaint commonly made about the workings of the market: To many people it just doesn't seem *right* that pop stars/investment bankers/athletes get paid so much more than nurses/firemen/teachers.

What no one participating in the barroom banter that afternoon seemed to consider was the question of just *who* is responsible for the size of Rodriguez's salary. The correct answer, especially given that we were in a sports bar, is that the discussants themselves ultimately are the ones setting such high rewards for being an outstanding athlete. (Not just the four of them, of course, but them in concert with all other sports fans.)

It is the very fans who often grumble about the "ridiculous" wages paid to top athletes who in effect set their salaries. That's because in a market economy the price paid for any factor of production (including labor services) arises from the choices consumers make about the items they wish to buy and how much they are willing to pay. Producers face costs in providing a good, and if they estimate that buyers will not pay at least enough for their output to cover their costs plus some profit, the good will not be produced. Those estimates can turn out to be overoptimistic: producers are often mistaken in gauging consumer demand, and many a business has gone under because it spent more to manufacture its offerings than consumers were willing to pay. But competition among entrepreneurs for buyers' dollars rewards those entrepreneurs whose forecasts are generally most accurate with profits that allow them to remain in business and invest even more in the future.

Consumers must bid enough to prompt producers into action, and the price of every good—industrial products as well as consumption items—can be traced to consumer choice. Producers of items needed for the

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production of consumer goods will find it rewarding to produce those items only if consumers value the final goods enough to pay for the resources and work necessary to create them.

What's more, the costs producers face in their operations are not determined by nonhuman factors such as energy expenditures, chemical transformations, or the abundance or scarcity of various raw materials; rather they are the consequence of the producers' evaluation of alternative ways in which they might earn their livings by meeting consumer demand. Of course, producers must not ignore physical reality in their business decisions: it will clearly require far more time and energy to manufacture skillets from iron mined on Mars than from the same metal mined on earth. However, unless consumers value "Martian skillets" more than the terrestrial variety, expending all that effort to procure otherworldly metal will not result in a higher price being paid for it. It is the preferences of consumers that drive the formation of prices all the way backwards along the production chain. If some resource *could* be used in the creation of a consumer good, but producers judge that their efforts to acquire it will not add enough to the value of the final product to be worth their while, they simply will choose not to employ it; they have no power to drive up the price of the end product by picking an extravagant way of manufacturing it.

If we are to allow free speech and treat our fellow citizens as autonomous individuals responsible for and entitled to make their own decisions, then it follows that they must be allowed to evaluate arguments as to how they should allocate their time and resources themselves.

This aspect of the market economy, which has been termed "consumer sovereignty," is entirely independent of how concerned a proprietor is about the welfare of his customers. One entrepreneur may start a firm because of a sincere conviction that the product or service he plans to provide will bring immense benefits to his clientele. Another may be motivated solely by his desire to become fabulously wealthy. But to succeed, both will be equally bound to judge accurately as to how much consumers will value his offerings. Certainly, an unscrupulous businessman may try to deceive consumers about the true nature of what he is selling, but that is more accurately classified as theft rather than commerce and properly is subject to legal sanctions.

Often the understanding of consumer sovereignty as presented above is attacked for not taking into account the character flaws and cognitive shortcomings of the flesh-and-blood people who really populate any economy. However, asserting that in a free market the consumers are sovereign in no way implies that every decision they make about spending their money is perfect and immune to moral or prudential criticism. If a father bets extravagantly on horseraces while neglecting to provide adequately for his children's needs for food, clothing, shelter, and education, then his friends and family are quite justified in reproving his conduct, and if the neglect is severe, legal remedies may be appropriate. If a wealthy heiress spends her inheritance entirely on lavish evenings of debauchery, then a newspaper's society columnist is perfectly entitled to bemoan that she is not putting her fortune to a better use. And while it is not immoral if I buy apples for $10 a bag despite their being available for $5 just down the street, a friend may sensibly and helpfully point out that I am needlessly wasting my money.

The recognition that, in the market, the consumer is the ultimate boss does not rely on any idealized model of him as a perfectly rational, fully informed, utility-maximizing supercomputer, whose choices are beyond reproach and are incapable of being improved on through reasoned consideration.

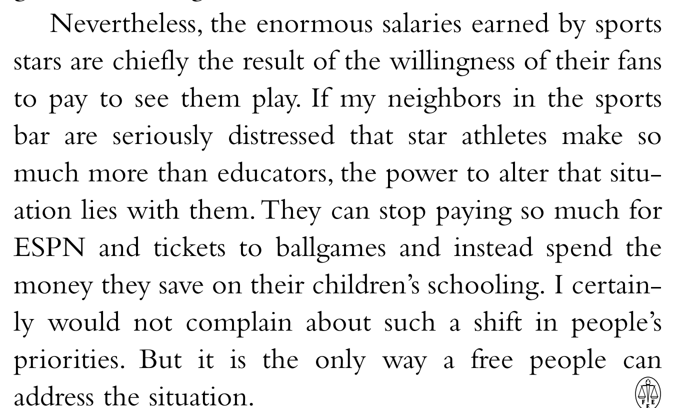
Some critics of "consumerism" argue that, in today's market societies, consumers' choices about what to purchase are "not really free" because they have been unduly shaped by massive and pervasive marketing efforts designed to convince people that they want or even need products that they could easily forgo, some of

which actually diminish their quality of life. A paradigmatic case is cigarettes: smokers are persuaded to buy them because tobacco companies have made them seem glamorous or sources of great pleasure, but in reality they ruin the health of smokers, who will come to regret their habit.

Not Immune from Error

It is true that consumers are no less immune from error in their choices of what to buy than are producers in their choice of what to make. But if we are to allow free speech and treat our fellow citizens as autonomous individuals responsible for and entitled to make their own decisions, then it follows that they must be allowed to evaluate arguments as to how they should allocate their time and resources themselves. In a free society the proper remedy available to those who deplore smoking or are convinced that their fellows should buy fewer Britney Spears CDs and more Bach is to persuade others of their beliefs. That such efforts at persuasion will sometimes fail is an inescapable consequence of treating others as free agents rather than as one's vassals whose lives can be directed as one wills.

It is important to note than nothing argued here suggests that every salary we see today is the result of consumers' voluntary choices. To the extent that any interest group, such as corporate managers, can successfully lobby for favorable legal restrictions on free-market processes, such as laws hampering corporate takeovers, then the members of that group might be able to earn more than they would through purely voluntary transactions. Similarly, the owners of baseball teams who receive municipal subsidies to build fancy, new stadiums can pay their players more than they could without that government largess.



Nevertheless, the enormous salaries earned by sports stars are chiefly the result of the willingness of their fans to pay to see them play. If my neighbors in the sports bar are seriously distressed that star athletes make so much more than educators, the power to alter that situation lies with them. They can stop paying so much for ESPN and tickets to ballgames and instead spend the money they save on their children's schooling. I certainly would not complain about such a shift in people's priorities. But it is the only way a free people can address the situation.

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