

The Case for Paying College Athletes

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The 21st century has been both the best and worst of times for the National Collegiate Athletic Association (NCAA) and its members. Television ratings and media dollars have never been higher, owing largely to the popularity of two major revenue sports (football and men’s basketball). Several college coaches have gained celebrity status and corresponding compensation packages. Among head football coaches, Alabama’s Nick Saban earns over \$7 million per year and Ohio State’s Urban Meyer has a base salary of \$4.6 million per year, not counting numerous incentive clauses. Among head basketball coaches, Duke’s Mike Krzyzewski earns \$9.7 million per year and Kentucky’s John Calipari is above \$7 million per year. The median head football coach among the 126 Football Bowl Subdivision institutions earned \$1.9 million in 2013; the comparable head basketball coach’s salary was \$1.2 million (Fulks 2014, table 3.12(a), p. 38).

On the other hand, the NCAA has never been more vulnerable and on the defensive with regard to its policies and practices, especially its reliance on the age-old characterization of college athletes as “amateurs” who are first and foremost “student-athletes” and the limits its members have collectively imposed on the remuneration these players receive. Several recent recipients of the Heisman Trophy (an annual award given to the most outstanding college football player) have been tainted when the players were found to have received benefits

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beyond the NCAA's prescribed limits, and similar allegations are pending against both the still-active 2013 winner and a leading candidate for the 2014 Trophy. Other players have had their college eligibility revoked for violating similar NCAA rules. At colleges and universities where these players had competed, victories were vacated, football teams were banned from bowl games, and coaches were terminated. Charges of illegal payments to players, academic fraud (fake courses and plagiarism), and gross improprieties involving faculty and university administrators, arguably in attempts to protect huge athletic revenue streams, have surfaced at Penn State, Notre Dame, and the University of North Carolina-Chapel Hill, among others.

The recent explosion of revenues flowing to NCAA member institutions and the relative pittance going to the primary input—the players—for those participating in bowl games and the annual “March Madness” men’s basketball tournament have created growing unease over the distribution of the largesse.¹ Much of the unseemly behavior has revolved around players seeking benefits beyond the NCAA’s collectively imposed maximum compensation—formally an athletic scholarship—that is limited to tuition, room, board, books, and fees. These concerns have already led the NCAA leadership to propose modest increases in financial aid awards and to consider changing restrictions on athletes’ opportunities to earn income beyond their grants-in-aid, undoubtedly an attempt to thwart demands for more far-reaching reforms that might undermine the NCAA, and completely destroy the existing intercollegiate sports business model.² In the next few years, several on-going legal challenges to NCAA rules will play out in ways that could alter college athletics, a uniquely American enterprise, drastically and permanently.

¹ Disclosures of lucrative financial dealings for the NCAA, leading conferences, and institutions have added fuel to the fire: a 14-year \$10.8 billion contract between the NCAA, CBS Sports, and Turner Broadcasting System to televise the men’s basketball tournament from 2011 to 2024; a \$7.3 billion contract for the NCAA Football Bowl Subdivision playoff and six associated bowl games for the next 12 years; top-tier programs such as Texas, Alabama, Louisiana State, Oklahoma, and Nebraska, bolstered by their own or conference broadcast networks and ticket sales, showing substantial profits from athletics (Berkowitz, Upton, and Brady 2013); and the perpetual realignment and expansion of conferences that are only explainable as an attempt to capture more television revenues.

² More attention and scrutiny are being applied within academe itself, questioning the compatibility of big-time college athletics with the research and teaching missions of these institutions as they are reflected in admission decisions and academic practices. There are also questions about the role and power of athletic departments on campus, and the budgetary ramifications of these commitments. The NCAA has taken a beating from the media in recent years. See historian Taylor Branch’s essay in the October 2011 issue of *The Atlantic* (“The Shame of College Sports”), the documentary DVD “Schooled,” and harangues by Joe Nocera in the *New York Times*. In the last several years economists have also produced volumes assessing the state of athletics on college campuses, including Shulman and Bowen (2001), Bowen and Levin (2003), Clotfelter (2011), Fort and Winfree (2013), Grant, Leadley, and Zygmunt (2008), and Zimbalist (1999).

A Brief History of the NCAA and its Governance

In 1906, in response to directives from President Theodore Roosevelt about the need for rule changes in intercollegiate football to reduce injury to players, several universities established the Intercollegiate Athletic Association of the United States, which became the National Collegiate Athletic Association in 1910. Concern over player health at the turn of the century was superseded 40 years later by worries about recruiting costs, the impact of television, and the financial stability of athletic programs—largely because increasing competition among colleges and universities for players was raising costs. Soon after World War II, NCAA members agreed to abide by a “Sanity Code,” limiting compensation to players and setting limits on escalating recruitment costs. Walter Byers, who coined the term “student-athlete,” became the NCAA’s first executive director in 1951 and served until 1988 (Byers 1995); Mark Emmert, former president of the University of Washington, is the NCAA’s current president. The Association, which has more than 500 employees, has been based in Indianapolis since 1999. Rent on its sizable headquarters is \$1 a year, courtesy of local support for this not-for-profit organization.³

Subsequent forks in the NCAA’s evolution have included its split into three competitive divisions—I, II, and III—in 1973, with I and II permitted to grant financial aid to athletes. In 2006, Division I further segmented football into the Football Bowl Subdivision (FBS, 126 institutions) and the Football Championship Subdivision (FCS, 122 institutions). Women’s sports came under the NCAA’s purview during the 1980s, precipitating decades of sparring over the Title IX amendment to the Higher Education Act of 1972—requiring gender equity in higher education.

What transformed college athletics and the NCAA from a “cottage industry” 60 years ago to the 800-pound financial behemoth it is today? First and foremost is the growth of television that fostered unprecedented expansion in broadcast revenues. Exposure via television also nudged the industry from one of local or regional interest to a national market, leading to an explosion in the number of contests and televised games, and even changes in the time of day or day of the week when they take place to accommodate endless broadcast network and cable demands for lucrative live-sports programming. While such changes have increased revenues in the affected programs, the shifting focus on college campuses toward intercollegiate sports has also had implications for academics. For example, Clotfelter (2011)

³ In addition to developing the “student-athlete” label, the NCAA has created other now-familiar nomenclatures that apply only to intercollegiate athletes, distinguishing them from regular students. For example, television broadcasters often refer to a player as a “true freshman,” as distinguished from a “freshman.” In sports, the latter is actually a true sophomore who was “red-shirted” his first year—that is, he was a registered student, practiced with the team, and was in uniform during games but not allowed to play, a mechanism a coach can use to gain eligibility for the player during his fifth year in college (a “fifth-year senior”), when he is likely to be 23 years old, and much stronger and a better player than when he was 18. Unlike all other students, student-athletes essentially are classified on the basis of their sports eligibility rather than their academic progress. To our knowledge philosophy and physics departments do not red-shirt their majors, even though the students might be more accomplished scholars during their fifth year in residence. Nor do they label their first-year students as “true freshmen.”

demonstrates that JSTOR usage falls substantially in March at universities whose teams are participating in the annual NCAA basketball tournaments that are played that month.

In what follows, we address the economic issue of why universities continue to operate large-scale commercial athletic programs and explore the market for players, the structure of the industry, and current legal challenges facing the NCAA. Our primary focus is on the two principal revenue sports, football and men's basketball, at high-profile athletic programs because they generate much more revenues than other sports.⁴ However, changing the operations of these two programs will also have implications for nonrevenue sports, including many women's teams at these institutions. We find the prospect of a competitive labor market in big-time college athletics appealing, though how such a market would work, and the transition to it, is a challenge to envision and implement.

Why Do Universities Operate Large-Scale Commercialized Sports Programs?

Most American colleges and universities field intercollegiate athletic teams in a variety of men's and women's sports. For about 350 universities playing Division I college basketball and 126 playing football in the Football Bowl Subdivision of Division I, these contests generate substantial revenues from television broadcast rights and ticket sales.⁵ Table 1 reports revenues generated by the athletic departments and subsidies from the rest of the university (called "allocated revenue" in Table 1) to cover athletic department losses for the 126 FBS universities for the last decade. The median FBS program currently operates on a budget of about \$60 million per year, one-third of which is a subsidy from the rest of the university. Examples of schools with athletic department budgets near the median include Maryland, Connecticut, Mississippi State, Iowa State, Georgia Tech, and Colorado. For an institution with 20,000 undergraduates, like Georgia Tech or Mississippi

⁴In 2013, the median annual revenue generated at the 126 largest (Football Bowl Subdivision) programs from football was \$20.3 million and from men's basketball \$5.6 million. The next highest median revenue was \$1.0 million from men's ice hockey. Beyond men's ice hockey, no other men's or women's intercollegiate sport at FBS institutions generated median revenues exceeding \$600,000 in 2013.

⁵The NCAA divides its member institutions into three divisions. Division I includes roughly 350 schools that typically have the most students, the biggest athletics budgets, and the most scholarships. These schools agree to meet various minimum standards, like sponsoring at least 14 sports. Division II includes about 300 colleges and universities. In this division, there are more restricted financial aid awards for each sport, and so it is common for athletes to receive partial scholarships. Division III includes about 450 colleges and universities, often smaller in size, and while athletes at this level of competition are eligible for the same need-based financial aid as any other student, there are no athletic scholarships. Division I is further divided for football, as noted on the previous page. The Football Bowl Subdivision only includes 126 schools, which are eligible to have their football teams play in end-of-season bowl games that determine a national champion. This group of schools is subject to additional requirements: for example, these schools must average at least 15,000 in attendance at home football games. The remainder of Division I schools do not sponsor football teams.

Table 1
Financial Statistics for 126 Football Bowl Subdivision Universities, 2004–2013

Year	Revenue (median; millions of dollars)				Subsidy percentage	Total revenue 2004 dollars (average; millions of dollars)	# of athletes on scholarship
	Total revenue	Generated revenue	Allocated revenue				
2004	28.3	22.8	5.4		19.1%	28.3	577
2005	32.8	24.3	8.5		25.9%	31.6	589
2006	35.4	26.4	9.0		25.4%	32.4	588
2007	37.6	26.1	11.5		30.6%	33.5	598
2008	41.1	30.5	10.6		25.8%	34.8	602
2009	45.7	32.3	13.4		29.3%	37.9	603
2010	48.3	35.3	13.0		26.9%	39.7	611
2011	52.7	38.8	13.9		26.4%	42.3	616
2012	56.0	40.6	15.4		27.5%	44.2	615
2013	61.9	41.9	20.0		32.3%	48.2	611

Source: Fulks (2014).

Notes: All revenues are medians, reported in millions; number of athletes is average per institution. Total revenue is generated revenue plus allocated revenue, and approximately equals total expenses. Generated revenues are produced by the athletic department and include ticket sales, radio and television rights receipts, alumni contributions, guarantees, royalties, and NCAA and conference distributions. Allocated revenue comprises student fees allocated to athletics, financial transfers directly from the general fund, indirect institutional support such as payment of utilities, security salaries, etc., and direct governmental support, that is, funds from state and local government agencies designated for athletics. Subsidy percentage is allocated revenues/total revenues. Total revenue in 2004 dollars is nominal dollars deflated by the Higher Education Price Index. Data prior to 2004 are not comparable because of changes in procedures; all data since 2004 are audited.

State, the annual subsidy would be about \$1,000 per student. Although median nominal revenues generated by intercollegiate sports teams have increased by 83 percent over the last decade, the growth rate in total athletic department expenses has expanded even faster, growing 115 percent over the same period (Fulks 2014, p. 12), leading to steadily growing subsidies.

The financial health of athletic departments rests on four elements: 1) the demand for television broadcast rights for live programming, 2) large, stable game attendance, 3) the desire of many universities to maintain ties with alumni and other constituents, and 4) a cartel agreement among universities to limit compensation for the essential input required to stage the games, namely the players. The first three elements boost athletic department revenues, while the fourth contains costs.

The rise in broadcast rights fees for college football and basketball games has been the main source of revenue growth of big-time college sports. Live sports target the favored audience of advertisers: 18–34 year-old males. Because few viewers record games and delete advertisements before watching and live games retain the uncertainty of outcome that recorded games lack, the demand for live sports content commands substantial broadcast rights fees, which in turn generate

premium advertising rates. The relative value of this type of programming has grown as the technology for excising advertising has improved. Moreover, prime time for college football games is Saturday afternoons, when the likely alternatives are reruns of old sitcoms, low-budget infomercials, or documentaries, none of which generate much advertising revenue. In addition, the incremental cost of televising a college sports event that was going to be played regardless of broadcast status is modest, making these broadcasts especially profitable, leading to fierce competition for broadcasting rights. As a result, CBS paid about \$800 million to the NCAA to televise the three-week 2014 men's basketball tournament; for comparison, in inflation-adjusted dollars, as recently as 1984 that figure was just \$12 million. The new four-team football championship, together with four affiliated bowl games, commanded \$610 per year from ESPN. Since 1996, the most valuable media rights for regular-season college sports events have been held by the major athletic conferences. The five dominant conferences—Atlantic Coast, Big 12, Big Ten, Pac-12, and Southeastern—control most of the attractive college football game inventory, and the regional parochialism of college football fans has left those largely geographically segregated conferences with considerable market power in the sale of their broadcast rights (Siegfried and Burba 2004).

Most of the FBS programs enjoy large gate attendance, with community, student, and alumni bases that support them almost regardless of their success on the field. Many of these teams represent land-grant universities located where there are few local competing entertainment options to undercut their pricing power. Because most college football games are played on Saturday afternoons or evenings and the fans are willing to drive many hours to attend a half dozen home games each year, the geographic reach of their fan base is large. Support of these programs also is largely independent of macroeconomic conditions, as evidenced by the continual steady climb of gate and broadcast revenues through the recession of 2007–2009.

According to a Knight Commission (2006) survey, 78 percent of Americans believe intercollegiate athletics is profitable. NCAA data, however, indicate that only 20 of the 126 Football Bowl Subdivision universities earned an operating surplus on intercollegiate athletics in 2013 (Fulks 2014, p. 13), a typical year, and only a portion of those profits were transferred to the academic side of their universities. The University of Texas is a prominent example of a school where athletics generates a profit: in 2013, Texas earned about \$20 million on sports revenues of \$163 million (Kirk 2014). But on average, funds flow in the opposite direction. A 2013 report in *USA Today* found that over \$1 billion of student tuition and fees was transferred annually to athletic departments in NCAA Division I to support intercollegiate sporting ventures (Berkowitz, Upton, and Brady 2013). For example, Rutgers University subsidized athletics to the tune of \$27 million in 2010 while it froze wages across the university to save \$30 million. By 2013, when Rutgers was poised to enter the Big Ten Conference, its athletics subsidy had expanded to \$47 million (Sargeant and Berkowitz 2014), about \$1,400 for each undergraduate student. The fraction of athletic department revenues coming from the rest of the university in 2013 was 20 percent at FBS universities, 71 percent at FCS universities,

and 77 percent at Division I universities that do not play football.⁶ The magnitude of resources redirected from academic to athletic purposes at all but about 20 of American Division I colleges and universities is nothing short of remarkable at a time of huge legislative cutbacks in taxpayer support for public colleges and universities and incessant complaints about rising tuition that students and their families are being asked to pay.

How have roughly five out of every six of the top athletic departments persuaded their universities' presidents and boards of trustees or regents to devote scarce general funding to intercollegiate sports? After all, none of these institutions' charters mentions commercial entertainment activities in their mission statement (Clotfelter 2011). When they incur financial losses on athletics, universities seem to double down, spending ever greater amounts on salaries for coaches and improving physical facilities rather than interpreting losses as a signal to redeploy assets elsewhere. Drawing on Getz and Siegfried (2012), we identify a half-dozen possible rationales for this behavior.

First, participation in and success at intercollegiate athletics might attract larger appropriations from state legislators concerned about their constituents' perceptions of the public universities in their states, especially considering the fact that the median voter in virtually every state is not a college graduate and might be more interested in the flagship state university's football team than its library. In support of this hypothesis, Humphreys (2006) found that those institutions fielding Division I football teams among a sample of 570 public universities receive about 8 percent more taxpayer funding than otherwise comparable universities without Division I football; participation seems to matter more than success on the field. In a follow-up study, Alexander and Kern (2010) found that basketball has a similar effect for Division I programs.

Second, university athletics may increase private donations. More than a dozen studies have investigated the effects of commercialized intercollegiate athletics on private contributions to colleges and universities: some find no effect, while others report a modest positive effect (Getz and Siegfried 2012). Participation in football bowl games appears to stimulate the most contributions. Because most of the incremental donations are directed to the athletic department (Anderson 2012) and consumed by athletic department expenditures, however, it is not clear that this effect produces much benefit to the university in general.

Third, the presence of high-profile sports programs, like various other campus amenities, may attract additional applicants and enrollment. A few well-known anecdotes suggest a link from winning to applications. North Carolina State University enjoyed a 40 percent rise in applications after winning the NCAA men's basketball championship in 1983 under charismatic coach Jim Valvano. Boston College enjoyed a similar surge in applications in the aftermath of quarterback Doug Flutie's famous "Hail Mary" pass completion to win a nationally televised regular season

⁶These fractions, and all other NCAA data reported here are limited to intercollegiate athletics programs only, excluding intramural and club sport programs.

game against the then-dominant University of Miami in 1984. A recent systematic study by Pope and Pope (2009) confirms that participating in post-season competition generates additional student interest in a university, but the gains are modest and fleeting. Empirical evidence bearing on the effect of intercollegiate athletics on undergraduate application and enrollment decisions indicates that simply having Division I sports programs matters more for student recruitment than does the success of those teams, and football seems to matter more than basketball. Additional spending on intercollegiate athletics may alter the mix of institutions to which college high school seniors apply and which one they attend, but there is no evidence that intercollegiate athletics increases overall college enrollments—beyond the important but small effect of increasing the chances of some of the athletes themselves attending college (Getz and Siegfried 2012, pp. 359–63).

Fourth, spending on sports programs has the characteristics of an arms race (Frank 2004; Hoffer, Humphreys, Lacombe, and Ruseski 2014). Those few ambitious and profitable athletic departments bid aggressively for high-profile coaches and steadily improve their physical facilities to attract recruits. Small differences in expenditures can lead to large differences in success in recruiting and, subsequently, on the field. Unprofitable programs have little choice but to ratchet up their spending, or they may fall even farther behind in the competition for quality players, with potentially devastating effects on their sports revenues. In this way, the net profits of the few profitable teams steadily drive up nonplayer costs for all competitive teams, requiring universities with already unprofitable intercollegiate athletics programs to increase their subsidies.

It is important to remember that even if participation in or winning at Division I intercollegiate sports affects appropriations from state legislatures, stimulates private donations, or boosts student applications to some extent, the positive connection is not sufficient by itself to conclude that subsidizing intercollegiate athletics is wise. For example, if the purpose of investing in intercollegiate athletics is to increase contributions, one would need to demonstrate that spending an incremental \$1 million on the salary for a coach stimulates more than \$1 million in donations and, additionally, that it stimulates more donations than spending that same \$1 million on expanded fund-raising for other worthwhile endeavors by the university development office. The same argument applies to intercollegiate athletics as a means to attract state appropriations and student applications.

Fifth, many colleges and universities set tuition well below the level sufficient to cover annual operating expenses. They selectively admit students with specific talents and characteristics (including children of financially successful alumni), and hope that some of them grow into appreciative multimillionaires willing to share their good fortune with their alma maters (Hoxby 2014). To enhance the prospects that the more successful graduates remember them during estate planning, these institutions invest in creating and maintaining emotional ties. They organize alumni cruises, send faculty to give talks to local alumni clubs, and sponsor annual “Homecoming” events that feature a football game. The challenge to the presidents of the universities is to weigh on the margin the value of funds devoted to directly

and immediately improving teaching and research against the prospective value of a more visible and more successful intercollegiate athletics program that might eventually attract a sufficiently large donation to the nonathletic side of the institution in the future, such that when discounted, generates an even greater boost to teaching and research. Of course, a number of prominent institutions successfully pursue ties with their alumni without big-time commercialized sports: for example, California Institute of Technology, Carnegie-Mellon, Case Western Reserve, Chicago, Emory, Johns Hopkins, MIT, New York University, Rochester, and Washington University (St. Louis), as well the entire Ivy League.

Finally, football in particular may affect academic status in higher education. Through its role in grouping institutions into conferences, football might influence how universities view themselves and each other and how the general public perceives the place of particular institutions within higher education (Lifschitz, Sauder, and Stevens 2014). An institution's sports rivals publicly specify its peers as worthy adversaries, perhaps academically as well as athletically; peer academic assessment scores vary considerably more among than within football conferences (Lifschitz, Sauder, and Stevens 2014).

Unless one or more of the above arguments is persuasive, if universities are steadily losing money on their intercollegiate athletic programs, one might ask why they don't abandon them.⁷ While the answer is not obvious, in the last century or so, only two institutions that fielded big-time football teams decided to scale back or drop them. Both the University of Chicago and Washington University (St. Louis) made that choice about the time of World War II (Clotfelter 2011) and have done quite well since abandoning Division I intercollegiate sports.

The Market for College Athletes

College sports labor markets are difficult to analyze because athlete services are heterogeneous. To deal with player skill heterogeneity, we introduce a benchmark concept of a "player skill unit." The skills of other players can be measured relative to this norm. When recruiting athletes, colleges seek to field teams with individuals who have many player skill units. The demand for player skill units is derived, depending on the incremental entertainment value created by additional player skill and the amount consumers are willing and able to pay for it. Demand is negatively sloped because of the combined effects of diminishing marginal returns to additional skill units and the usual downward-sloping demand (and corresponding marginal revenue) for entertainment.

The supply of athlete services reflects the payment necessary to induce additional player skill units into the market. It is positively sloped because additional

⁷ Moreover, adding gravity to the question, some recruited athletes are admitted with weaker academic credentials than the marginal nonathlete's admissions portfolio (Shulman and Bowen 2001), risking the consequences of negative "peer effects" on the broader student body.

skill units have successively increasing opportunity costs. More skill units can be extracted from existing players through extra training. Players ask for increasingly larger compensation per additional skill unit provided because of diminishing marginal returns to training and because the marginal value of leisure time increases as it becomes scarcer. At higher compensation rates, additional skill units also can be secured from players newly attracted to the market.

In a free market for labor, universities would compete against each other for the services of new high school graduate athletes. With many universities and many high school graduates, such a market could be workably competitive. The result would be a competitive wage paid for player skills and probably a much reduced surplus earned by college athletic departments (where it is typically distributed as economic rents to department officials and to construct world-class facilities). But the NCAA and its members collectively fix college athletes' wages. Student-athletes appear to be the only category on a campus where an outside organization (the NCAA) is granted power to dictate compensation and hours of work. The American Library Association, for example, does not dictate pay levels for "student-library-workers." Moreover, financial aid packages at many doctoral programs exceed tuition and fees, including a stipend for living expenses, and graduate student stipends are not coordinated among the universities with PhD programs by an association of graduate schools.

Moreover, university athletic departments can essentially dictate many aspects of a "student-athlete's" routine, something that would not be possible if they had to obey general labor laws, such as restrictions on hours of work. Because Division I athletes have historically been considered "students" rather than employees, they are not covered by labor laws, are not eligible for workers compensation, and cannot bargain collectively via union representation.⁸

Colleges and universities deal with the prospect of hiring players in a competitive market by engineering monopsony power as a group, and then collectively agreeing to a ceiling on remuneration. It is not at all clear under what authority the NCAA specifies the number and size of athletic grants-in-aid awarded to college

⁸ It is particularly surprising that in an academic environment where free and open discussion is generally encouraged that college athletes' freedom of speech is restricted more than that of professional athletes. When five St. Louis Rams players held up their hands on November 30, 2014, in a "hands up, don't shoot" reference to the August 2014 Ferguson, Missouri, death of Michael Brown and a subsequent grand-jury decision not to indict the police officer, and when prominent NBA players sported "I Can't Breathe" warm-up jerseys a few days later in reference to the death of Eric Garner on Staten Island in July 2014 and, again, the failure of a grand-jury to indict the police officer involved, no disciplinary action by their respective professional teams or leagues stifled their freedom of expression. However, a 2010 NCAA regulation forbids college athletes from expressing words, numbers, or symbols on their body or on tape attached to their body. So, writing a reference to a Biblical passage in players' eye-black (such as "Psalms 23:1") is prohibited. And to top off the irony, players often are even required to display a Nike swoosh or some other trademark when their university or coach has a contract with a trademark's owner.

football and basketball players.⁹ There is no legislation, court ruling, or collective bargaining agreement that permits this coordination.

Because playing major college sports is attractive to many young men, and often is accompanied by perquisites like being a center of attention, possible future job offers from alumni, and, for a few of them, the chance of cashing in on a professional contract, there is a sufficiently elastic supply of players at a relatively low wage to fill all of the roster slots available on major college football and men's basketball teams. Division I football allows each FBS team to offer 85 football scholarships and each FCS team to offer 63, for a national total of about 19,000 football scholarships. Division I basketball includes about 350 teams at 13 scholarships each, yielding about 4,500 men's basketball grants-in-aid.

To have a low and elastic supply curve to profit from, college and university sports teams need to limit the alternatives available to the more-talented prospective players. The National Football League (NFL) and National Basketball Association (NBA) aid and abet in this regard by restricting new player entry into their leagues, limiting access to the NFL only to players three years after high school graduation and entry into the NBA only to players who have reached age 19 (a limit that soon may be raised to 20). The pool of prospective players therefore has limited alternative ways to practice, improve, and audition for the professional leagues other than to attend college. The NFL and NBA have an interest in how the NCAA operates, because universities provide free specific training, increased maturity, and reduced risk for future professional players. Moreover, because the professional leagues' collective bargaining agreements with their respective players' associations grant free-agency to players after they have been in the league for a specific number of years, delaying entry of players to a time nearer their peak playing skill saves team owners the difference between the high free-agency salaries of star players and the constrained (by the collective bargaining agreement) salaries of entry-level players. Conversely, the relationship furnishes universities with prime athletic talent at far less than competitive wage rates.

Agreements to restrict the alternatives available to prospective college athletes are essential to the NCAA's monopsony power in the athlete labor market. No organization other than the NBA and NFL specifies a minimum working age above 18 (except in a few cases where government imposes a minimum age, such as for a bartender or chauffeur). The implicit cooperation of professional sports leagues with the NCAA and its member institutions to enforce these requirements is unique.

Whether the athlete labor market reaches equilibrium at a number of players or a level of player skill units that is less than that level where supply intersects demand in a free competitive market cannot be determined. In a free market where the NCAA could not restrict roster sizes or the number of teams, the demand for

⁹ In an effort to control costs, over recent decades the NCAA has progressively reduced the number of grants-in-aid that big-time football teams can offer. In September 2014, former Colorado State football kicker Durrell Chamorro sued the NCAA, challenging the current limit of 85 scholarships an FBS football team can offer as a collusive limitation that restrains trade.

the most skilled athletic labor would be higher. But in a competitive market the alternatives of prospective players would not be restricted, and so the supply curve also would require a higher wage at each level of skill unit offered. The first consideration leads to more players and skill units employed, while the second leads to fewer players and skill units employed than would otherwise occur. What is certain is that the compensation level of the college players is presently lower than it would be in a competitive market.

The pay ceiling on intercollegiate athletes leads universities to “overdose” on complementary inputs. The same institutions that have agreed not to compete on direct compensation to players instead compete furiously on the basis of other factors of production: program reputation; coach; quality of stadiums, arenas, weight-rooms, residence halls, and training-table food; scheduling games in attractive locations; and lavishing personal attention on recruits. The result is an 800-page book of NCAA rules and regulations for limiting recruiting expenses and player compensation, accompanied by a seemingly perpetual stream of scandals created by attempts to circumvent the cartel rules.

There is also an incentive to overuse underpaid inputs. When John Wooden coached UCLA basketball to ten national championships in the 1960s and 1970s, college basketball squads averaged about 25 regular-season games. The pre-tournament schedule now is 30–35 games for most teams. The college basketball season for elite programs essentially runs from October through March, the bulk of the academic year. In 1950, the regular college football season was eight games; now it is 12, with most conferences holding a championship game after the regular season.¹⁰ As recently as 2001, there were 25 football bowl games; in 2014–15 there are 39. Thus, 62 percent of the FBS teams will play a bowl game. In addition, college football started a four-team playoff in January 2015 without reducing the number of regular-season games, which adds yet another game to the supply commitments for players on the two most successful tournament teams. There are already calls to expand the football playoffs to eight or even 16 teams, with each new round of playoffs adding yet another game to the schedules of successful teams. The 2015 NCAA national champion football team will most likely have played 15 games. Television exposure has also led to an increased number of games played at neutral sites, where both teams must travel, and to games played on weeknights during the academic year.

A chief reason for schedule expansion at the college level is that the marginal cost of the primary input in the production process is close to zero, and the players have no voice in the decision to expand the schedule, and no claim on the incremental revenues generated. In contrast, decisions to increase the number of games played by professional teams are made in consultation and agreement with the

¹⁰ The expansion in the number of teams in college football conferences from about eight or ten to twelve or fourteen, in addition to capturing more television revenue, also facilitates adding a conference championship game, pitting the winner of one division against the other, thus sneaking in one more revenue-generating game.

players' association. As a result, the NFL has played a 16-game schedule since 1978, and the players' union blocked recent attempts to lengthen it to 18 games. The regular season in the NBA has been fixed at 82 games since 1967–68.

At the professional level, there are also safeguards regarding how long a coach can work his players, constraints imposed via negotiation between the players' association and the league. At the collegiate level there are no comparable controls over excessive hours. Although the NCAA unilaterally limits practice to 20 hours per week, there are innumerable ways coaches can circumvent the nominal limit. For example, compliance meetings, traveling to and from competitions, drug educational meetings, and community service projects do not count toward the 20-hour per week limit. Voluntary athletic-related activity in which a student-athlete participates and which is not required or supervised by coaches is also not counted against the totals. This could include strength and conditioning as well as athletic skill work. Many college football teams report for work near the end of July, one or sometimes even two months before other students return to campus from summer break.

Yet another way the NCAA stifles competition for players is by limiting their opportunity to transfer. A regular degree-seeking student who is dissatisfied with the academic or social characteristics of a particular college can transfer easily. The student's initial college cannot stop such students from leaving, nor dictate where they enroll. But the NCAA and the student-athlete's initial coach *can* dictate where a scholarship athlete may not enroll (for example, at a conference rival); plus, the player must sit out from playing for a year. No similar cost is borne by other students or coaches. A football or basketball coach who changes jobs may be required to "buy" his way out, but only if he voluntarily signed a contract containing such a stipulation. And he can begin immediately elsewhere, even before the current season is over, or before the team plays in a bowl game.

The longer one considers the NCAA-coordinated limits on what college athletes in the money-making sports can be paid and what they can do, the more uncomfortable comparisons arise. The NCAA used to fix the salaries of some assistant coaches, but a 1998 Court of Appeals ruling held that this limit was collusion in restraint of trade, an antitrust violation costing the NCAA a judgment of \$66 million (*Law v. National Collegiate Athletic Association*, 134 F.3d 1010 [10th Cir. 1998]). And as noted earlier, the median head coaches of big-time football and basketball programs are paid well over \$1 million per year, not the adult equivalent of "room, board, tuition, books, and fees."

The real issue is not whether college athletes should be paid, or whether all schools pay the same amount. College athletes at the Division I level are in fact currently paid, in the sense that the majority receive grants-in-aid that cover most—although not all—of their college expenses. Athletes are also paid different amounts depending on the school they attend. The NCAA policy to compensate student athletes with room, board, tuition, books, and fees masks an enormous disparity across member institutions in the dollar value of that financial aid package. For example, at Brigham Young University the full-year tuition is less than \$5,000; Stanford's tuition is roughly ten times as much. One might also argue that a diploma

from, or even attendance at, some colleges compared to others is worth a significant difference in terms of expected lifetime incomes.

The NCAA's Monopoly and Monopsony Power

Sixty years ago, one might not have predicted the persistent and steadily increasing market power of the NCAA. One would have expected a group of more than 1,000 institutions to have difficulty maintaining cartel stability. Moreover, NCAA members are the epitome of heterogeneity. Some are public, others are private; they vary enormously in terms of budgets, wealth, and the size and academic quality of their student bodies; and they differ by mission and their scope of activities—for example, between colleges with a predominantly teaching focus and research-oriented universities. However, despite periodic squabbles among members about how to distribute the spoils, the NCAA has been remarkably adept at creating and marketing its brand, retaining loyalties, beating back challenges to its market power, and resisting incentives for individual teams to cheat on agreements. Other than losing the 1998 assistant coaches' wage-fixing case and a 1984 US Supreme Court decision ending the collective sale of television broadcast rights (*National Collegiate Athletic Association v. Board of Regents of the University of Oklahoma* 468 US 85 [1984]), until recently the NCAA generally has prevailed in legal disputes. This legal winning streak is now in serious jeopardy, as we discuss below.

The NCAA benefits from various arrangements that allow it to exercise market power on the supply side of the market for college athletics. The range of conditions that must be met for entry means that the number of teams in the FBS and FCS of the NCAA is limited to about 250 and the number of teams in Division I for basketball to about 350. Because setting up new college sports conferences is difficult, an erosion of economic rents due to entry is of little concern to the elite. The NFL does not broadcast on Saturdays during the college football season as a result of a compromise it reached with the US Congress in the Sports Broadcasting Act of 1961, cementing college football's market power in broadcasting live sporting contests on Saturdays.

Nevertheless, the mighty edifice of big-time college athletics must still compete in selling its product with a range of other options for the consumer's discretionary time and entertainment dollar, including professional sports and nonsports options. Thus, it may be that the most important aspect of the NCAA's market power is its monopsony control over players.

The Distributional Aspects of Change: Cui Bono?

In the contemporary world of intercollegiate athletics, some parties benefit from current arrangements and others are harmed. One fact seems inescapable: rents are expropriated from the most talented football and men's basketball players

in high-profile programs and redistributed to other parties. If a competitive labor market for athletes would return these rents to the players, it is important to understand who is benefiting now, because that will identify the most likely resistance to any movement toward a competitive labor market for college athletes.

One set of redistributions might be among the athletes themselves. Not all Division I football or men's basketball players currently are exploited. The star quarterback, running back, or wide receiver, or the high-scoring shooting guard or 7-foot shot-blocking center would clearly be paid more in a competitive market for college athletics talent. But a bench warmer might be paid less. The 85th grant-in-aid player on the 2014 BCS champion Florida State University football team and the last substitute on the 2014 NCAA national champion University of Connecticut basketball team bench are both likely net beneficiaries of current arrangements. The relevant question is where along the talent continuum the needle moves from exploited to subsidized.

Using conventional methodology, Lane, Nagel, and Netz (2014) measure the marginal revenue product of Division I men's college basketball players. Successively relating player performance to winning, and winning to gate receipts, they find that the playing contributions of about 60 percent of the players generate revenues exceeding the value of their grants-in-aid. For example, on most basketball teams the starting five and the first two substitutes generate net revenues, which is plausible. Those are the players likely to receive additional compensation if intercollegiate teams hired labor in a competitive market. While there is no analogous study of college football players, it is likely that 40 to 50 of the 85 scholarship players on most Division I football teams would also receive more than just a grant-in-aid in a competitive labor market. The rest would likely be worse off, particularly if more players on top Division I teams are "walk-ons," essentially nonscholarship players.

Other Division I college sports—such as wrestling, swimming, softball, and volleyball—that at most institutions do not bring in sufficient revenue from television, gate receipts, and private donations to cover their scholarships would probably be little affected by men's basketball and football players being paid a competitive market wage. Many nonrevenue sports teams at Division I universities have far more athletes, male and female, than they have full grants-in-aid, so they are in essence already treating some of the athletes in these sports like regular students, eligible only for need-based scholarships. As Fort and Winfree (2013, Chap. 1) point out, most big-time sports programs lose money, and the nonrevenue sports are already being subsidized by general university funds. However, a competitive market for football and men's basketball players could have implications for women athletes, depending on how the Title IX rules that require equity between male and female athletic scholarships are interpreted. If football players are considered employees, as the Illinois regional director of the National Labor Relations Board (NLRB) ruled in April 2014, does that remove 85 scholarships from the male side of the Title IX scales, allowing institutions to reduce female scholarships by a corresponding 85?

The effect of having the highly-recruited quarterback earning, say, \$200,000 a year, with the right tackle receiving the economic value of a traditional grant-in-aid,

and perhaps the English graduate assistant who is teaching both of them being paid even less does not give us pause. There already are enormous salary disparities among and within universities—as illustrated by differences in what physics and philosophy professors are paid, and the persistent arguments over the unusually low pay of adjunct faculty. Competitive markets pay workers based on their marginal revenue products and opportunity costs, and when those factors differ among individuals, compensation varies accordingly.

Another set of redistributions would presumably arise among the Division I colleges and universities with high-profile football and basketball programs. The effects could extend to shifts in intra-university transfers; shifts in authority, control, and power on their campuses; changes in the size and distribution of their applicant pools; and political costs of lobbying state legislators. Paying the players market-based wages might increase short-term financial operating losses at some—or many—universities. Those institutions with a high level of commitment to athletic excellence and a willingness to spend whatever it takes to beat their archrivals will presumably bid up the price of players. But over time, even elite programs would have to recalibrate how much they are willing to devote to paying their star performers in football or men's basketball. Such institutions would also need to consider where those monies come from—whether from academic programs, reductions in scholarships to other athletes, more fees imposed on students, larger contributions from legislatures or alumni, less spending on facilities or amenities for players, or from the salaries of the coaches and director of athletics. Otherwise, the zero-sum competitive recruiting game will drive even the highest revenue programs into bankruptcy.

We think the primary reason for the plethora of big-time university sports teams is the binding ceiling on wages paid to players. With such a distortion in factor prices, an inefficiently large number of teams can survive. It is likely that paying players would move the market for college athletics to an equilibrium of fewer teams, probably closer to the number of teams that would exist in the corresponding premier professional leagues if those leagues did not restrict entry so as to increase the value of their franchises. If the current number of high-level basketball programs were to drop from around 350 to about 100, or in football a reduction to approximately 65 programs instead of the current 126 in FBS competition (65 is the number of teams in the five “power” conferences, plus Notre Dame), then either some of those who would have been scholarship football and men's basketball players would become unemployed or work as volunteers—that is, as “walk-ons.”¹¹ If the NFL and NBA reacted to a smaller number of big-time college athletics programs by instituting viable training-leagues, some of the potential unemployment would be mitigated. But given that the NFL and NBA mostly draft players from elite programs, and those players are most likely to survive, the professional leagues might be comfortable with a shrunken version of the college status quo, seeing little

¹¹ The number of FBS football teams declined by one when the University of Alabama-Birmingham announced on December 1, 2014, that it was dropping football from its athletics program because of its high cost. This is the first football program to leave the FBS in over two decades.

need to pay for training “laid off” college athletes who were unlikely to make it in the premier professional leagues anyway.

One possible outcome of paying players is that the major college conferences would break off from the NCAA entirely and conduct their athletics business in an entirely different way, including increasing the pay of players in revenue sports. In football, one could envision a world in which the five major conferences as a group, or as individual conferences, and maybe a few of the other strong conferences would reorganize into smaller cartels, and become the effective organizing unit. These cartels might pass muster with antitrust regulators, who have not challenged the conference-level coordinated sale of college television broadcast rights that developed after the Supreme Court nullified the NCAA’s national broadcast cartel in 1984.

If college athletes were paid competitive market wages, how would the demand for in-venue and live broadcast game content among students, alumni, and other fans fare? Competitive balance is sometimes seen as a fundamental and necessary ingredient in any athletic contest. In his seminal sports economics article, Rottenberg (1956) wrote: “The nature of the [sports] industry is such that competitors must be of approximately equal size if any are to be successful.” If college athletics moved from the current status quo to a situation that allows uncapped compensation, perhaps formally treating athletes as employees in some institutions, and reducing coordination across universities, competitive balance may change. However, it is not obvious in which direction. The existing system of capped compensation for players bestows enormous recruiting benefits on prestige programs. Institutions like Western Kentucky and the University of Massachusetts currently face an uphill battle recruiting against Notre Dame or Duke, with their high-profile programs and coaches.

How competitive balance would change if players were compensated differently would depend on the relative preferences of players for cash compensation versus their perceived value of noncash benefits of playing for various colleges or universities. Since there must be at least some highly talented players whose preferences favor cash, the introduction of pay-for-play is likely to divert some players to universities that had no chance to attract them when the recruiting currency was limited to program prestige and playing facilities.

Even if competitive balance were to decline, demand may not follow. Intercollegiate athletics currently is quite popular in spite of a fairly high degree of competitive imbalance. The demand for dominant teams and the enjoyment fans of nondominant teams receive when their team occasionally upsets a dominant team may outweigh the demand for more competitive balance (Coates, Humphreys, and Zhou 2014). After all, a few dominant teams create an opportunity for other teams to be dragon slayers. As a recent *Sports Illustrated* article put it, “without Goliath, David was just a dude throwing stones without a concealed weapons permit” (Gorant and Keith 2014).

Sports fans currently enjoy a panoply of television viewing opportunities as well as an array of in-venue intercollegiate sports options. Paying athletes would affect fans’ amenities, particularly at the institutions that may reduce support for high-profile commercial athletics. When thinking about potential losses to students

and alumni who are sports fans, however, it is also worth remembering that many students and alumni have little or no interest in big-time sports contests. Some even dislike sports. Such students might well prefer that they are not assessed fees to pay for such contests or that sports subsidies coming from their tuition dollars be reallocated to different extracurricular or academic activities.

There is also the fundamental question as to how paying players more, and correspondingly admitting publicly that these high-profile sports teams are comprised of hired-guns with at best only a loose affiliation to the university, might affect demand by spectators. If paying players overtly reduces the demand for viewing college sports, perhaps to levels experienced by minor leagues in baseball and ice hockey, the revenue-maximizing price fans or broadcast networks pay to watch in-person or to broadcast games on television will decline. But a simple increase in the cost of labor without any shift in demand should not affect ticket prices (Fort and Winfree 2013, chap. 10).

How athletes in nonrevenue intercollegiate sports programs would be affected hinges on how universities would rebudget if the net revenues from their football and men's basketball programs fell, forcing resources from one part of the academic or athletic enterprise to another. In most cases, however, nonrevenue intercollegiate sports are already subsidized by general university funds. These intercollegiate sports teams, as well as intramural and club sports, are part of a set of amenities institutions provide to recruit talented students and to keep them satisfied. These activities are likely to survive any sea change—except on one score: What would be the implications for Title IX and female athletes if current restrictions on football and men's basketball player compensation were eliminated? For the most part, excluding a few select high-profile women's basketball programs (like Connecticut and Tennessee), female athletes play on a wide range of low- or nonrevenue teams. On the one hand, just as with nonrevenue sports teams for men, the impact might be minimal. However, when it comes to gender equity, the interests of the federal government and the courts, as well as the institutions themselves, could turn this into a larger issue.

Next, among the many tentacles of the college sports octopus are the television and cable networks and their broadcast affiliates (an integral part of the college revenue machine); complementary firms such as Nike, Reebok, Under Armour, and other advertisers and sponsors; cities that play host to bowl games and regional March Madness weekends, whose mayors believe the events boost their local economies; and sports writers and broadcasters. They all benefit from the current overproduction of, and emphasis on, high-profile college athletics, which affords them an array of programming alternatives, inexpensive advertising, and livelihoods that depend in large part on the status quo. They are likely to be worse off in a world of pay-for-play college athletics.

When thinking about who benefits from the current arrangements, it is worth remembering that the vast majority of star Division I football and men's basketball players are African-Americans, many from low-income families. Athletes in nonrevenue sports, athletic department personnel, coaches, faculty and staff, and the student and alumni bodies of the Division I universities as a whole are

predominantly white. Given that the NCAA and its members now suppress the wages of outstanding athletes to amass rents and then redistribute that largesse to other people and units on campus (as well as to the NCAA itself), the distributional implications are embarrassingly clear: lower-income (on average) minority athletes are “taxed” to provide benefits to other people who are overwhelmingly white and from higher socioeconomic strata.

One can also raise concerns that a competitive free market in college football and basketball might in some ways offer too little protection for these young men, who will find themselves (and their families) in fine-print negotiations. One can imagine a limited role for the NCAA to ameliorate these asymmetrical information problems.

How Will Change Arrive? Internal Reforms and Lawsuits

In what appears to be an effort to head off even more drastic changes in the existing intercollegiate sports business model, in April 2014, the NCAA Division I board of directors voted to allow all universities to offer unlimited meals and snacks to their athletes in addition to the restricted regular meal plans provided through their grants-in-aid, spawning a new intercollegiate competition in food provision. Subsequently, the NCAA changed its organizational structure to allow the five premier college athletic conferences and Notre Dame to operate under a different set of rules. Presumably this will allow those teams to provide additional benefits to their scholarship athletes; those benefits could include raising compensation up to the full cost of attendance at each institution, and insurance policies covering playing related medical expenses incurred after the end of a player’s college career.

Other proposals now being discussed have included a requirement that schools shift to multiyear scholarships. At present, most athletic grants-in-aid are not automatically renewable from year to year, although since 2012 individual institutions may, as the University of South Carolina and the University of Southern California have done, act unilaterally to offer multiyear grants-in-aid to scholarship athletes, which essentially is a form of wage competition. As an illustration of how competition breaks out on many fronts, in October 2014, the Big Ten conference announced that henceforth all of its athletic scholarships will be guaranteed for four years. Further changes might provide support for former athletes who want to complete their undergraduate degrees after their playing eligibility has expired, or who return to school for an advanced degree. Dealing with health-related concerns that surface long after an athlete’s playing days are over, such as concussions,¹² would be another possibility.

¹² In July 2014, the NCAA offered \$70 million to settle claims in several head-injury-related lawsuits that are pending in US District Court in Chicago. This follows a similar dispute lodged by former professional football players against the NFL for retired players’ medical costs from dementia and other neurological disorders tied to repeated concussions.

Whatever the merits of these proposals, they fall well short of a free competitive labor market for college athletes. It seems likely that any change beyond tinkering will require the pressure of government regulatory decisions and lawsuits. Several pending lawsuits seem especially salient.

First, there is the 2009 complaint in *O'Bannon v. NCAA* that the trial court decided in August 2014. Ed O'Bannon, a former player on UCLA's last national championship basketball team, argued that after players leave college they should share revenues from the commercial use of their image; the NCAA has asserted lifetime control over those rights. US District Court Judge Claudia Wilken ruled in the O'Bannon case that the NCAA's collective agreement to cap player compensation at the level of a grant-in-aid violates the Sherman Act because it is collusion in restraint of trade. To complicate matters, however, Judge Wilken went on to suggest that a compensation cap set above the current level of tuition, room, board, books, and fees (by \$5,000) might withstand legal scrutiny. The ruling (which can be downloaded here: <http://s3.documentcloud.org/documents/1272774/obannon-court-decision.pdf>) is under appeal.¹³

Second, several former Northwestern University athletes recently have organized the College Athletes' Players Association, which argues that college players are employees who should be eligible for employee medical benefits and allowed to bargain collectively over compensation and work conditions. In March 2014, a regional director of the National Labor Relations Board ruled that Northwestern's football players are primarily employees, rather than "student-athletes" as the NCAA maintains. Although the NCAA and Northwestern are appealing this decision, we believe that at least some Division I schools eventually might welcome a union representing college players. With a union in place, the teams in the conferences or even groups of conferences could negotiate a collective bargaining agreement similar to the agreements between professional sports leagues and their players' associations that include various provisions that would otherwise be illegal, like maximum and minimum salary levels, or a team payroll cap.

Third, a collection of similar cases that directly attack the ceiling on grants-in-aid are moving through the courts. One prominent suit filed on behalf of former running back Shawne Alston requests that he be paid the foregone earnings he might have earned from West Virginia University if the school had not agreed with other NCAA colleges and universities to restrict his compensation to a grant-in-aid. To add fuel to the fire, in March 2014, prominent sports labor attorney Jeffrey Kessler filed a class-action lawsuit (Farrey 2014) in a federal court in New Jersey against the NCAA and its five "power conferences."¹⁴ Interestingly, Kessler's lawsuit

¹³ The success of O'Bannon may have precipitated further liability for television sports broadcast networks and the college conferences with which they negotiate broadcast rights. On October 3, 2014, ten more former college athletes sued numerous broadcast networks and athletic conferences who have profited from the broadcast and use of student athletes' names, likenesses, and images without the athletes' permission (*Jevon Marshall et al. v. ESPN, Inc.*, Case 3:14-cv-01945, Middle District of Tennessee).

¹⁴ The plaintiff's name in the Kessler case is Martin Jenkins, a former Clemson football defensive back, but the name most often mentioned is the lawyer Kessler because he is a formidable legal opponent in sports labor matters. Two decades ago, Kessler won the case that led to free agency for NFL players.

does not ask for financial damages but instead for an injunction that would eliminate all collectively imposed restrictions on player compensation. The request for an injunction, rather than damages, suggests the case is based on principle rather than a quest for financial reward and is therefore less likely to settle out of court by compromise. Such cases are straightforward—they ask the courts to find the collective NCAA restrictions on the number and size of grants-in-aid illegal under the Sherman Act, and to issue an injunction against the organization and its five largest conferences prohibiting them from continuing the practice.

It is of course impossible to forecast the eventual outcomes of these cases. But the precedents from the NCAA's legal defeats mentioned earlier—both the 1984 television broadcast rights price-fixing case and the 1998 assistant coaches wage-fixing case—suggest the NCAA is in risky legal territory with respect to its agreement to limit player compensation. The enormous increase in revenues for Division I football and basketball in the last few decades has fundamentally altered the question of whether it is reasonable for player compensation to be limited to grants-in-aid. These pending lawsuits are likely to lead to changes well beyond the incremental steps currently proposed by the NCAA.

We expect an evolution in the labor market for big-time college athletes, primarily in the form of changes that greatly reduce, if not completely eliminate, the monopsony power of the NCAA, intercollegiate sports teams, and conferences. How long will it take to reach a new steady-state equilibrium? Is it possible to reach the new equilibrium with only modest disruption to the existing structure of revenue-producing college athletics? Or is considerable confusion and ensuing chaos part and parcel of the athletic bed the NCAA has made for itself? Our sense is that people involved in big-time intercollegiate athletics are too ambitious and too aggressive to control themselves unilaterally so as to operate within the constraints of antitrust law.

The current arrangements in the labor market for big-time college athletics are inefficient, inequitable, and very likely unsustainable. Yet it is far from obvious how to get from here to a competitive labor market without incurring substantial transition costs. While a truly “competitive free market” is attractive, it is not without risk, especially considering that the output restrictions arising from big-time intercollegiate sports teams' market power in selling tickets and broadcast rights might have been offsetting the expansive pressures of the low price of labor. Second-best considerations might be important here; for example, eliminating monopsony power could lead to increased market distortions when there is no longer a force offsetting the surviving output market power.

Professional sports experienced an evolutionary process in moving toward more competitive labor markets. Professional team owners initially had total monopsony power over players. The players gradually gained somewhat equal footing through court decisions and unionization. We might expect a similar evolution in college athletics, primarily through changes that slowly erode the monopsony power of the teams and conferences. Labor discussions in the NFL or NBA now consist of the commissioner, team representatives, and a battery of lawyers on one side of the

table and players, their union representatives, and their attorneys on the other side. Perfect competition this is not, but a fair fight it arguably is. In the current collegiate counterpart, on one side of the table is the athletic director, the head coach, the NCAA, and legal expertise, and on the other a 17-year-old kid and his mom; it's not hard to predict that outcome. Salary negotiations in a competitive free market for labor services would probably still involve the athletic director, the head coach, and the university's lawyers on one side of the table, but this time the 17-year-old kid and his mom are likely to be accompanied by their attorney, perhaps working on a contingency basis linked to the salary negotiated.

What might happen if Kessler ultimately prevails and college athletes can sell their athletic services in a truly free market? With 65 FBS teams and many aggressive coaches, it seems inevitable that as soon as the compensation limit is lifted, some universities will begin to offer their better players financial inducements to stay on their team and will begin to include a cash payment in packages offered to new recruits. As some institutions do so, others will follow suit. The NCAA and its members probably can tolerate an eventual O'Bannon victory upheld on appeal so long as the \$5,000 supplemental per player cash payment cap outlined by Judge Wilken survives. An ultimate decision affirming the Northwestern NLRB ruling that college football players are employees would be harder, though not impossible, for the NCAA to stomach. An eventual victory by the plaintiffs in Kessler's case probably ends business-as-usual. NCAA President, Mark Emmert, when asked recently about Kessler's lawsuit said it would "blow up college sports" (Strauss 2014).

At least initially, other excessive costs that have been absorbing the rents created by the players are unlikely to diminish. So costs of big-time athletics programs will rise and the surpluses for the 20–25 programs that are currently profitable will begin to fade. The subsidies from the general fund to the athletic departments at institutions currently reporting a loss will increase. University presidents will have to confront difficult questions: "How much is too much of a subsidy? When do the benefits from fielding a competitive FBS football or a March Madness tournament-quality basketball team begin to fall short of the value of the research and teaching sacrificed to support the team financially?" It seems unlikely that the landscape of big-time commercialized intercollegiate athletics 10 years from now will resemble today's incarnation, or anything seen in the last half-century.

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